

Arizona State Retirement System Board



US Equity Small Cap Asset Class

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February 17, 2006

Presentation Topics

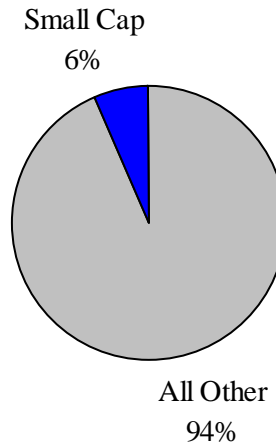
- Small Cap Manager Reviews (aggregate)
 - Asset Class Snapshot
 - Mandates Overview
 - Excess Returns
 - Value Added in Dollars
 - ASRS Small Cap Equity Asset Class vs. Russell 2000
 - Style Analysis
- Small Cap Manager Reviews (individual)
 - Performance Analysis
 - Attribution Analysis
 - Style Analysis
 - Organizational Issues
 - Assessment

ASRS US Equity Small Cap Asset Class

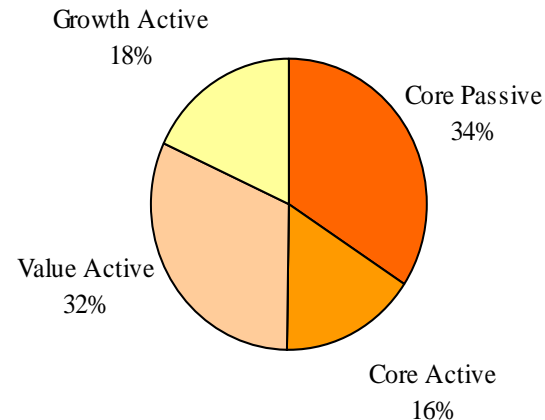
December 31, 2005

- Market Value: \$1.5b
- Passive Percent: 34%
 - Target 30% \pm 20%
- Active Style Composition:
 - Core: 25%
 - Growth: 27%
 - Value: 48%
- Portfolios:
 - 1 Passive
 - 4 Active:
 - Quantitative: 3
 - Fundamental: 1
- Average Fee: 13 bp

Total Fund
\$23.5 billion



Style Composition



ASRS US Equity Small Cap Managers

Mandates

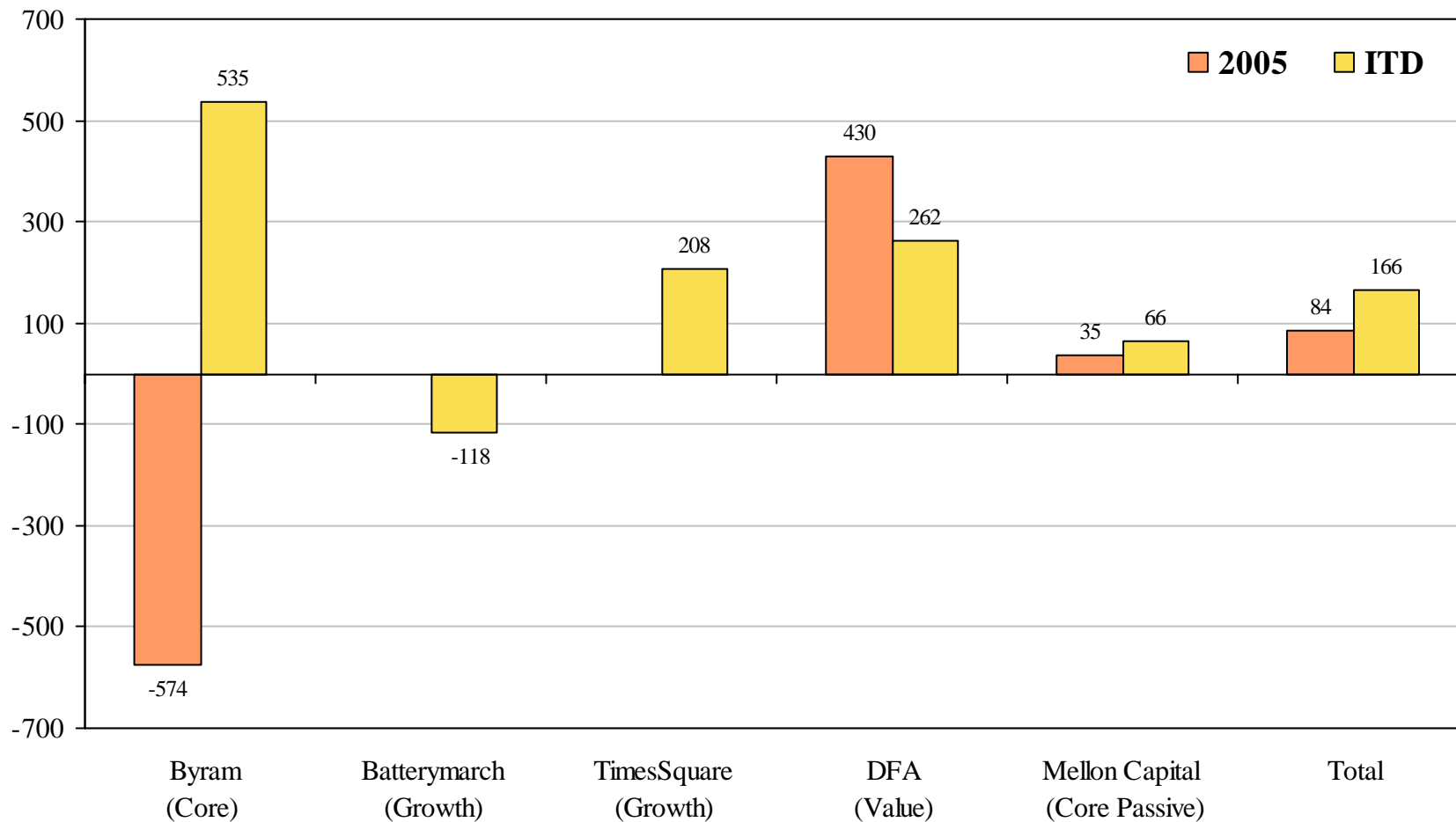
December 31, 2005

Manager	Style	Benchmark	Inception	Fee (bp)	Expected Alpha (bp)	Portfolio Assets (\$mil)	Strategy Assets (\$mil)
Active							
Byram	Core	R2000	8/31/98	30	300	\$ 238	\$ 919
DFA	Value	R2000 Val	8/31/98	21	200	\$ 465	\$ 29,346
Batterymarch	Growth	R2000 Gr	12/31/04	71	230	\$ 129	\$ 1,208
TimesSquare	Growth	R2500 Gr	3/31/05	85	215	\$ 138	\$ 1,813
Passive							
Mellon Capital	Core	R2000	8/31/98	2	0	\$ 501	\$ 1,059

ASRS US Equity Small Cap Managers

Excess Returns

Period Ending December 31, 2005

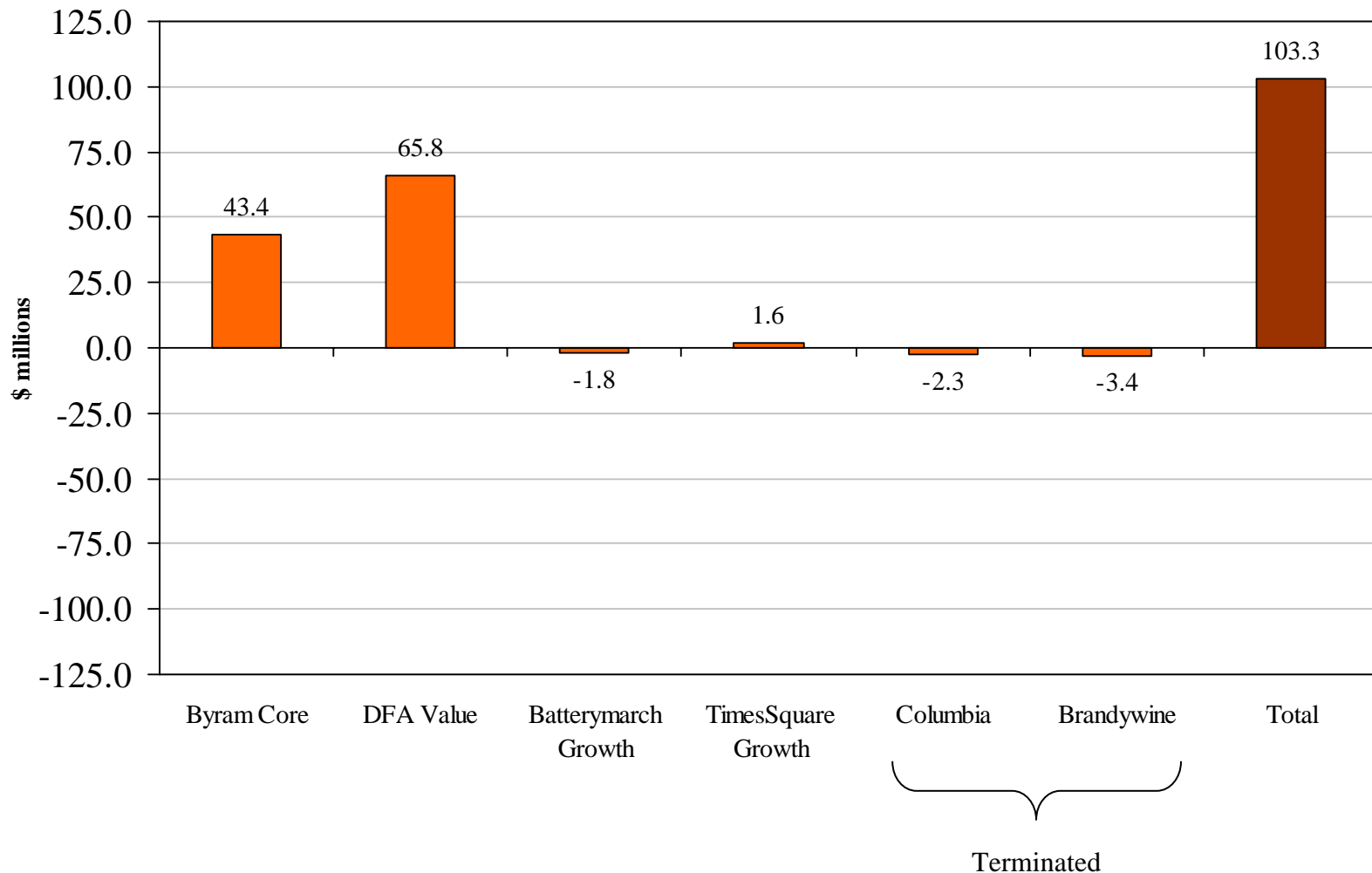


Small Cap asset class inception date: June 30, 2002
Excess returns are net of fees

ASRS US Equity Small Cap Active Managers

Value Added in Dollars

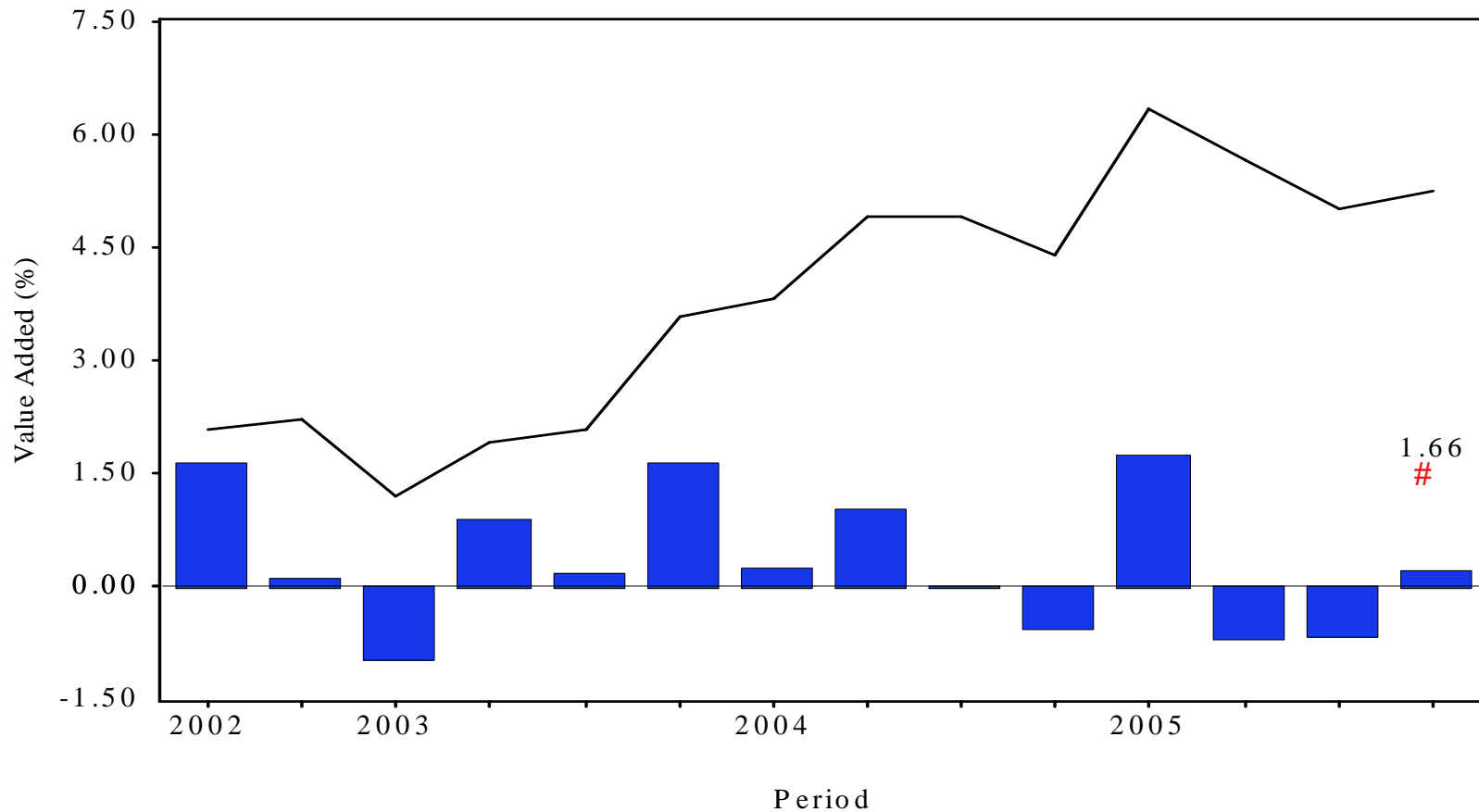
10 Year Period Ending December 31, 2005



ASRS US Equity Small Cap Asset Class

Value Added Relative to Russell 2000

July 2002 to December 2005

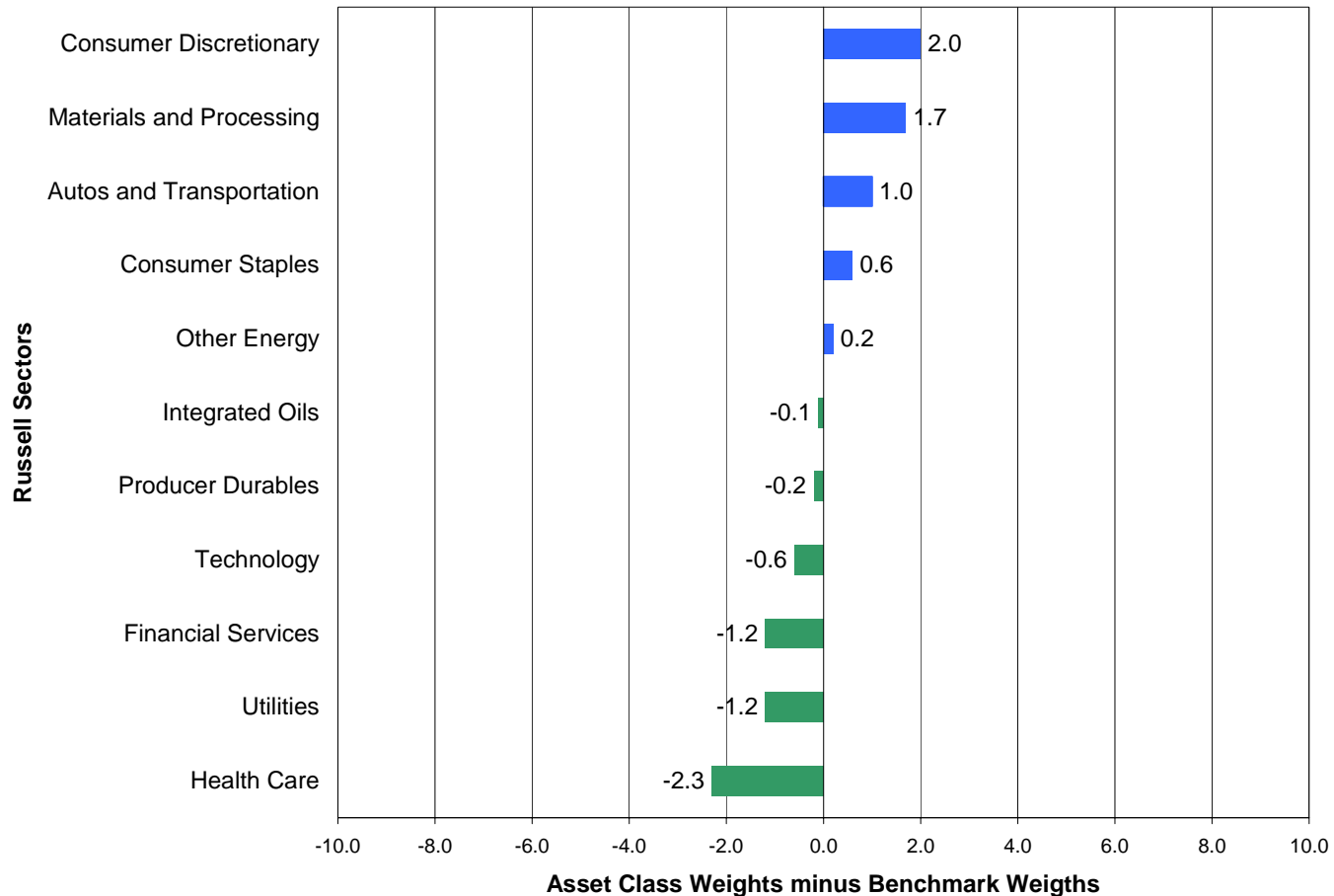


■ Annualized since 7-2002
 ■ Cumulative Value Added
 ■ Value Added

ASRS US Equity Small Cap Asset Class

Style Analysis: Economic Sectors

As of December 31, 2005

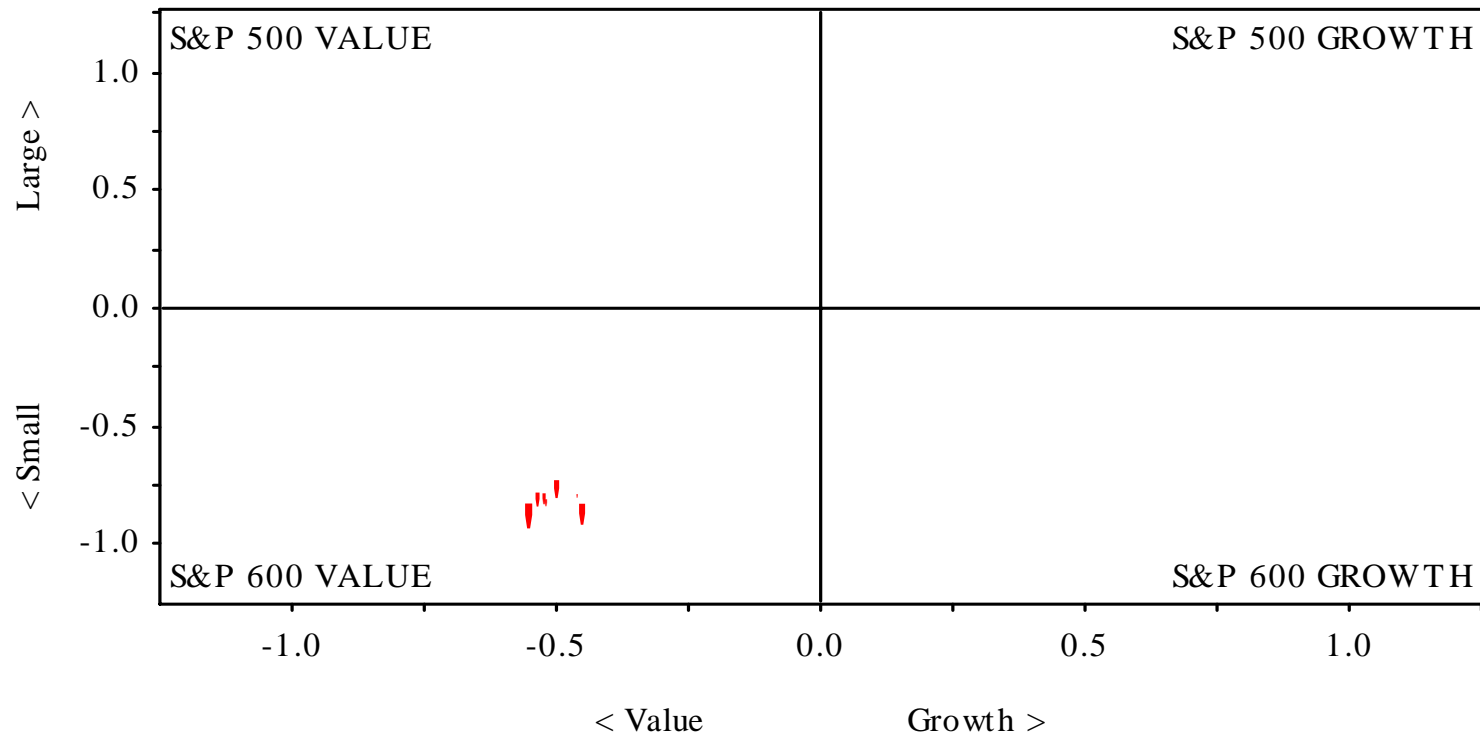


Reflects all passive and active portfolios

ASRS US Equity Small Cap Asset Class

Style Analysis

July 2002 to December 2005



■ Small Cap Composite

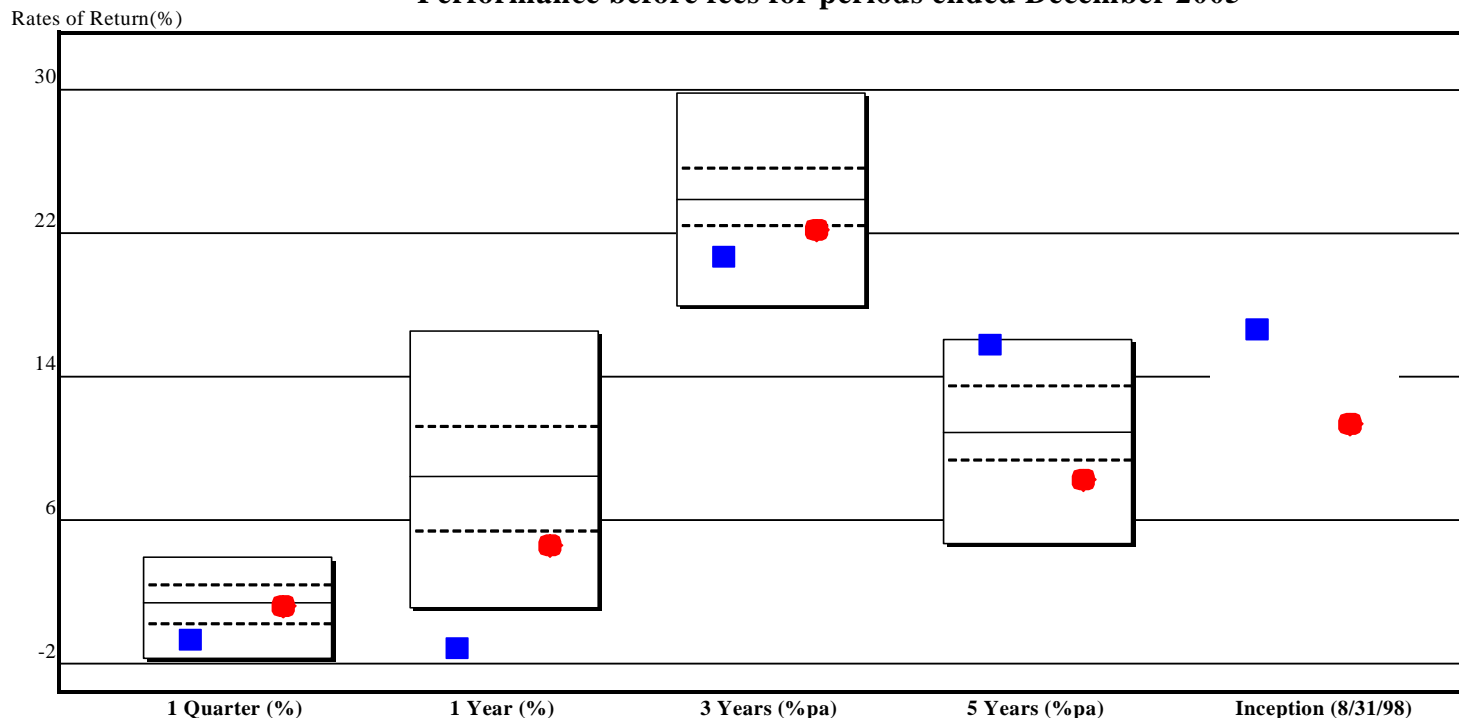
Rolling Window: 3 Years

Mercer Small Cap Composite Inception: July 2002

Byram Capital Management Small Cap

Comparison with the Mercer US Equity Small Cap Core Universe

Performance before fees for periods ended December 2005

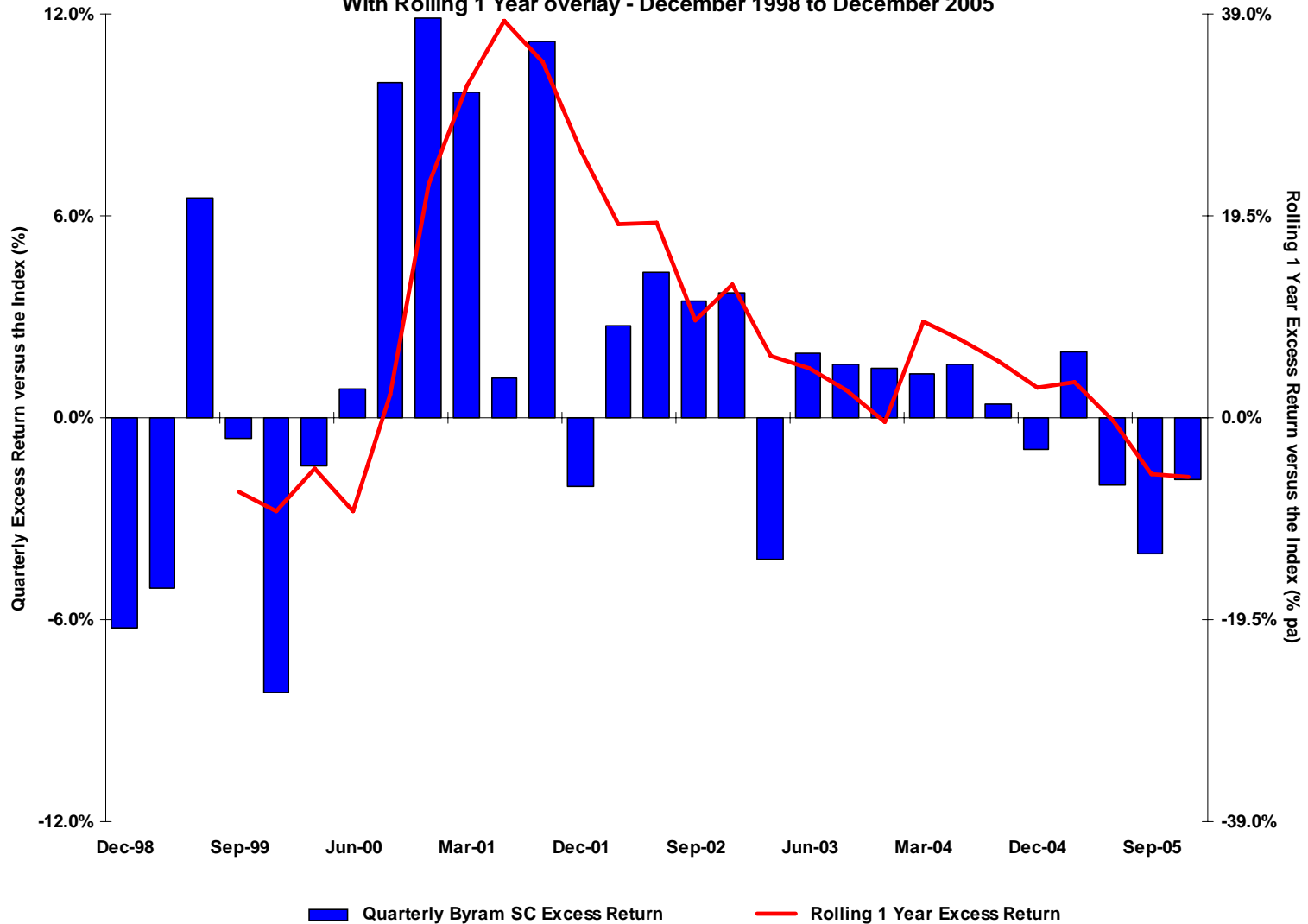


Byram SC	■	-0.7 (89)	-1.2 (100)	20.7 (89)	15.8 (6)	16.6
RU 2000	●	1.1	4.6	22.1	8.2	11.3
5th Percentile		3.9	16.4	29.8	16.1	
Upper Quartile		2.3	11.2	25.5	13.4	
Median		1.3	8.4	23.9	10.8	
Lower Quartile		0.1	5.3	22.3	9.3	
95th Percentile		-1.7	1.0	17.9	4.6	
Number of Funds		83	83	77	69	

Byram Capital Management Small Cap

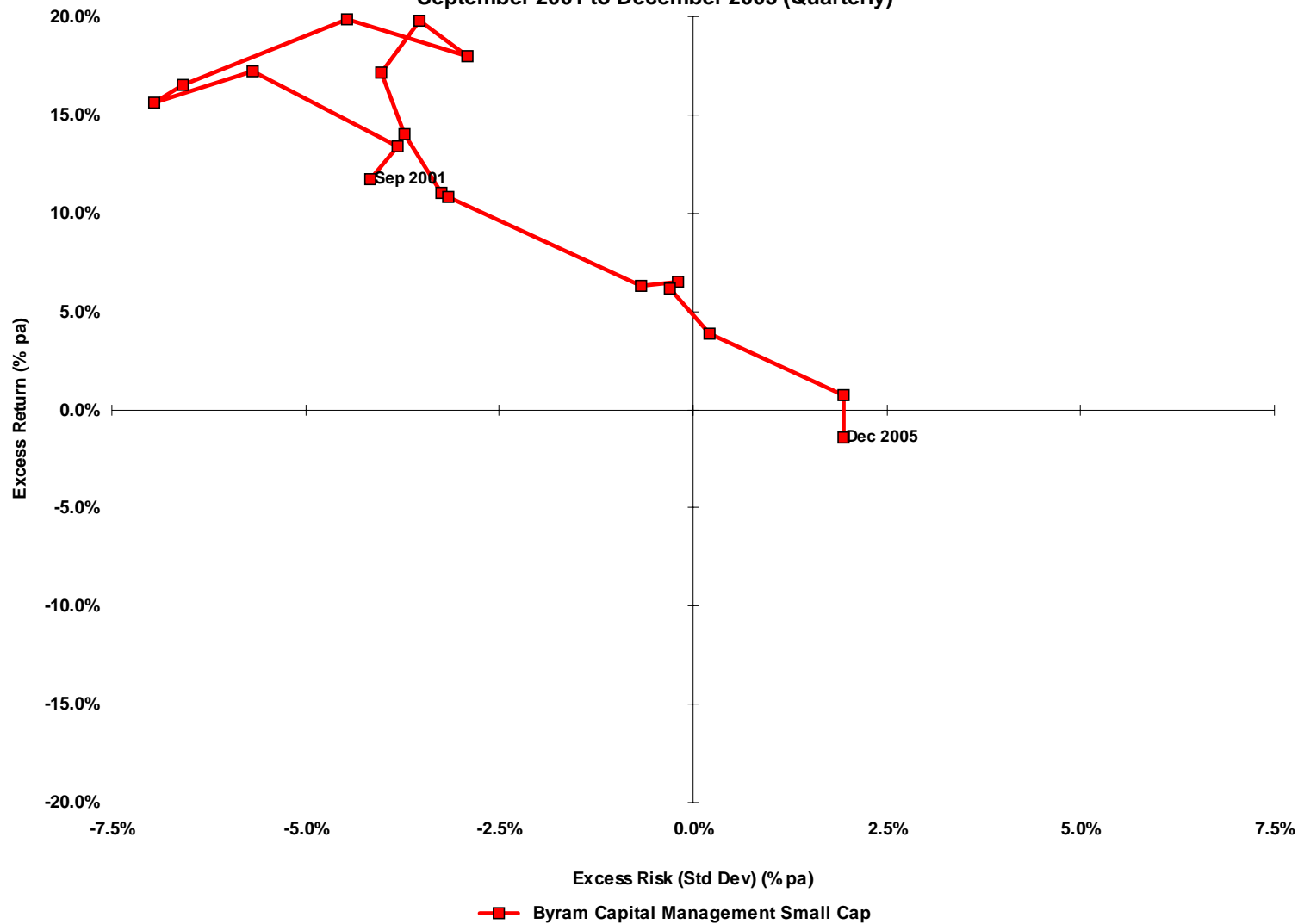
Quarterly Excess Return for Byram SC versus the Russell 2000

With Rolling 1 Year overlay - December 1998 to December 2005



Byram Capital Management Small Cap

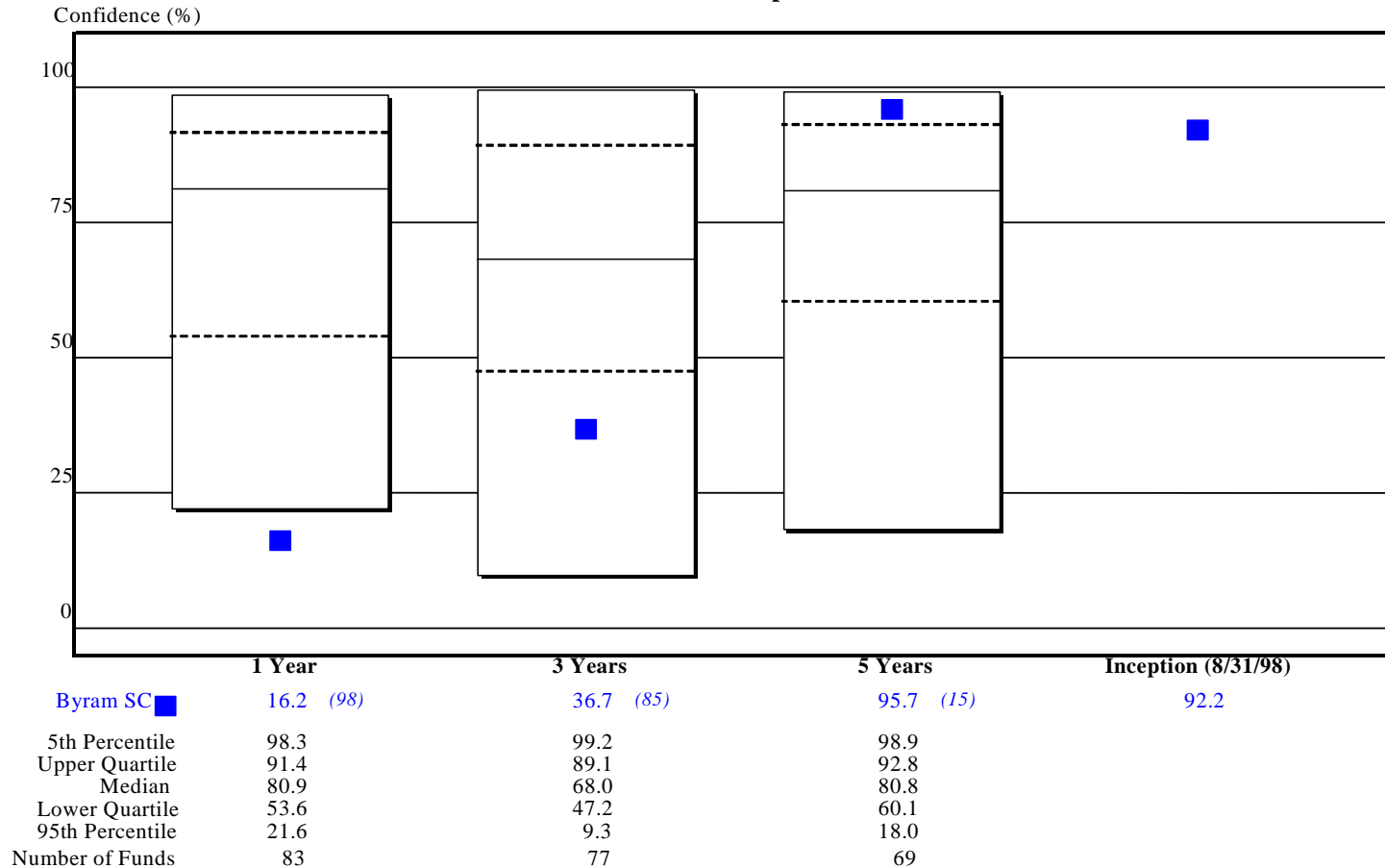
Rolling 3 Year Risk / Return versus the Russell 2000
September 2001 to December 2005 (Quarterly)



Byram Capital Management Small Cap

Comparison with the Mercer US Equity Small Cap Core Universe

Confidence of Value Added for periods ended December 2005



Byram Capital Management

Attribution Analysis

Period Ending December 31, 2005

	Quarter	1 Year	3 Years	5 Years	Inception
Stock Selection	-1.8%	-5.0%	-0.7%	11.1%	6.5%
Sector Selection	0.1%	0.0%	0.1%	0.1%	0.0%
Other	0.0%	-0.2%	-0.5%	-3.3%	-1.0%
Fees	-0.1%	-0.5%	-0.3%	-0.3%	-0.2%
Excess Return	-1.8%	-5.7%	-1.4%	7.6%	5.3%

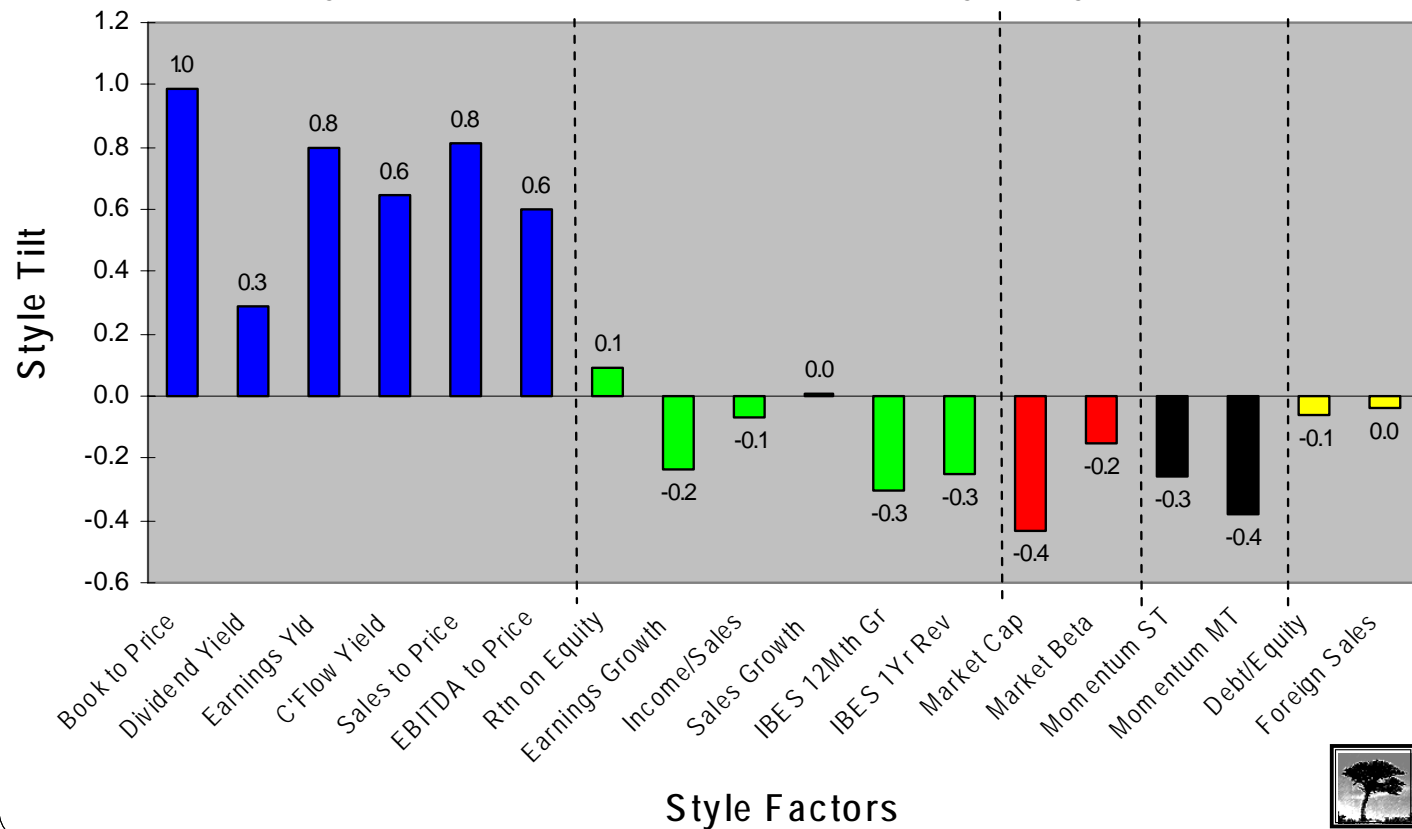
Byram Capital Management

Style Analysis: Economic Sectors

As of December 31, 2005



Byram vs Russell 2000 - Portfolio Style Skyline



Byram Capital Management

Organizational Issues

- Byram's asset growth and investment process over the more recent periods are of notable concern.
- Organizational infrastructure and investment process are viewed as simplistic relative to other institutionally-based money managers.

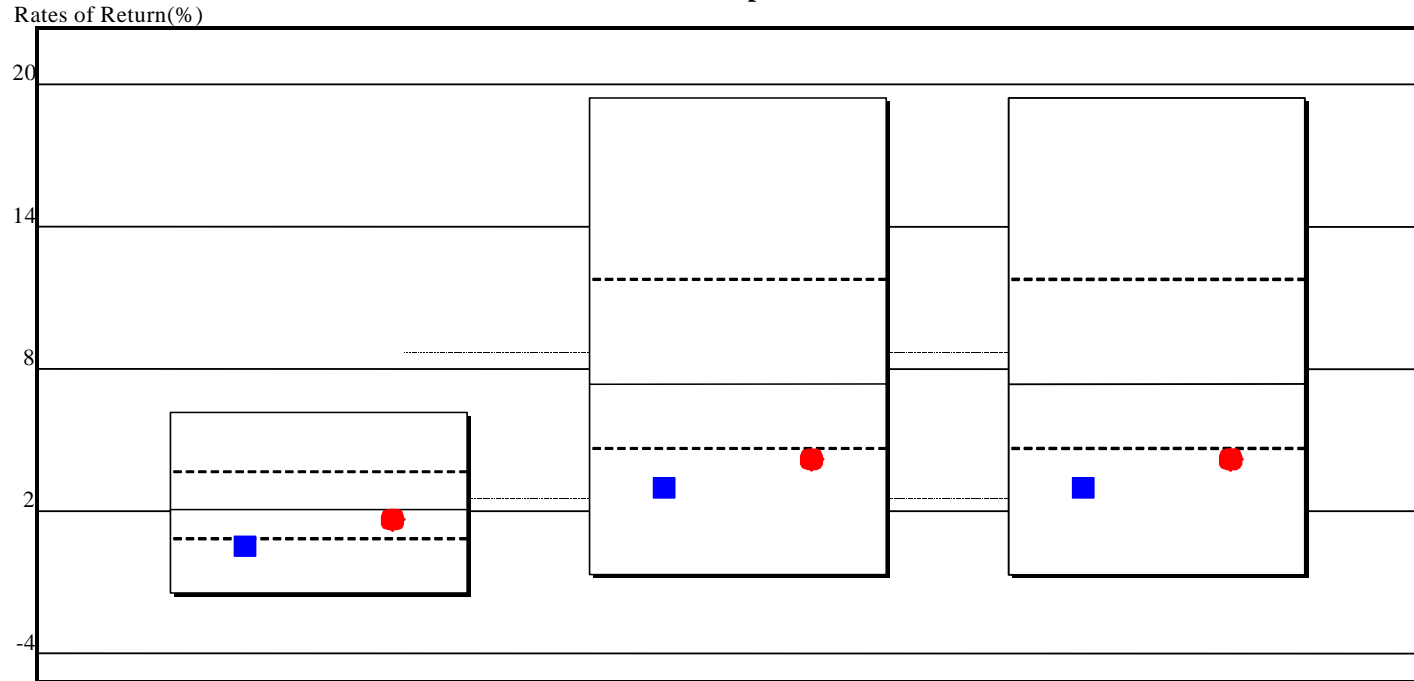
Assessment

- Byram underperformed its benchmark and the universe median for all periods except 5 years. For 5 years, the portfolio was above the index and placed in the top decile of the universe. Since inception, Byram outperformed the index.
- Mercer rates this product B (average probability of outperformance).

Batterymarch Financial Mgmt

Comparison with the Mercer US Equity Small Cap Growth Universe

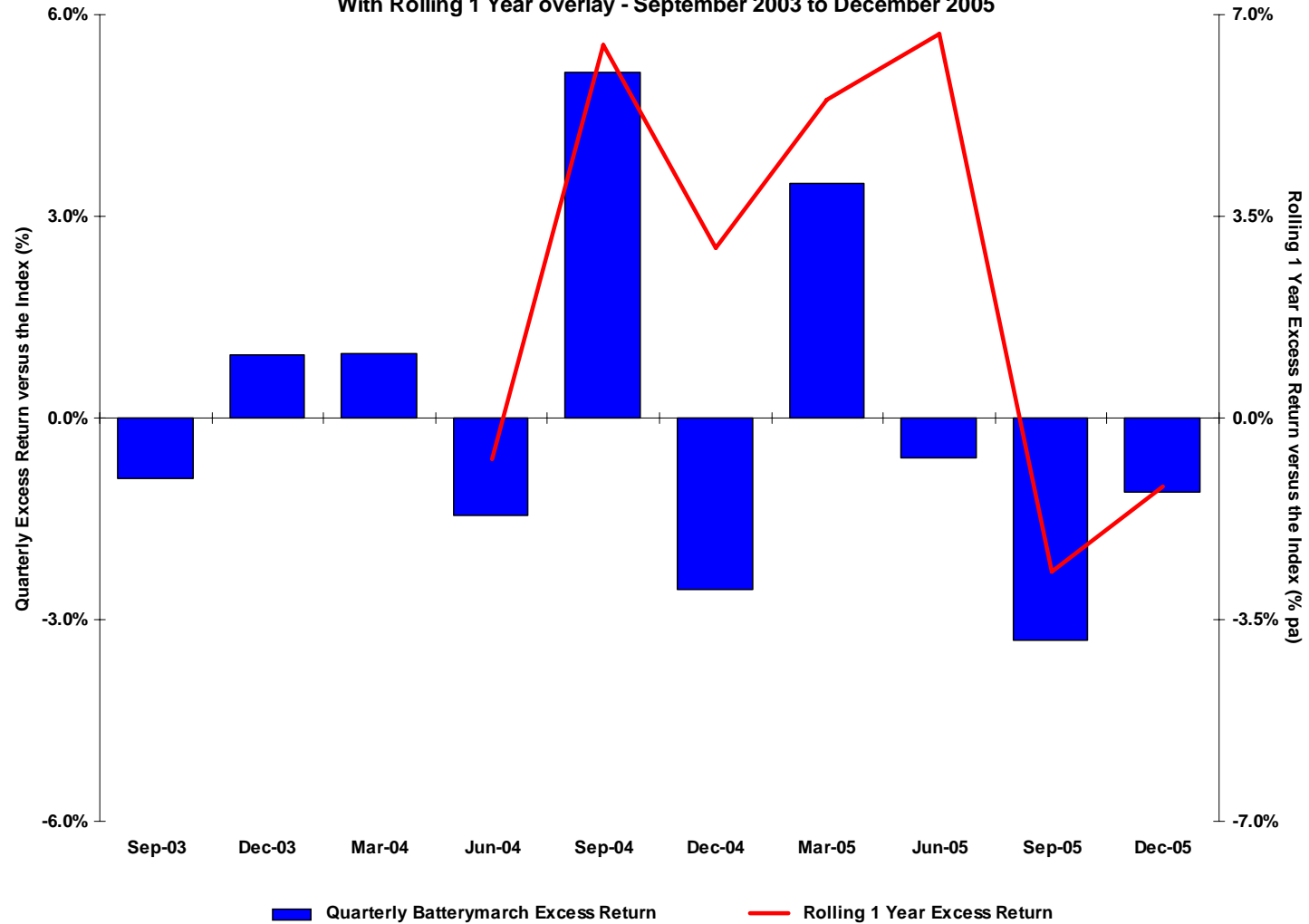
Performance before fees for periods ended December 2005



	1 Quarter (%)	1 Year (%)	Inception (12/31/04)
Batterymarch ■	0.5 (79)	3.0 (86)	3.0 (86)
RU2GRO ●	1.6	4.2	4.2
5th Percentile	6.1	19.4	19.4
Upper Quartile	3.6	11.7	11.7
Median	2.1	7.3	7.3
Lower Quartile	0.8	4.6	4.6
95th Percentile	-1.5	-0.8	-0.8
Number of Funds	137	128	128

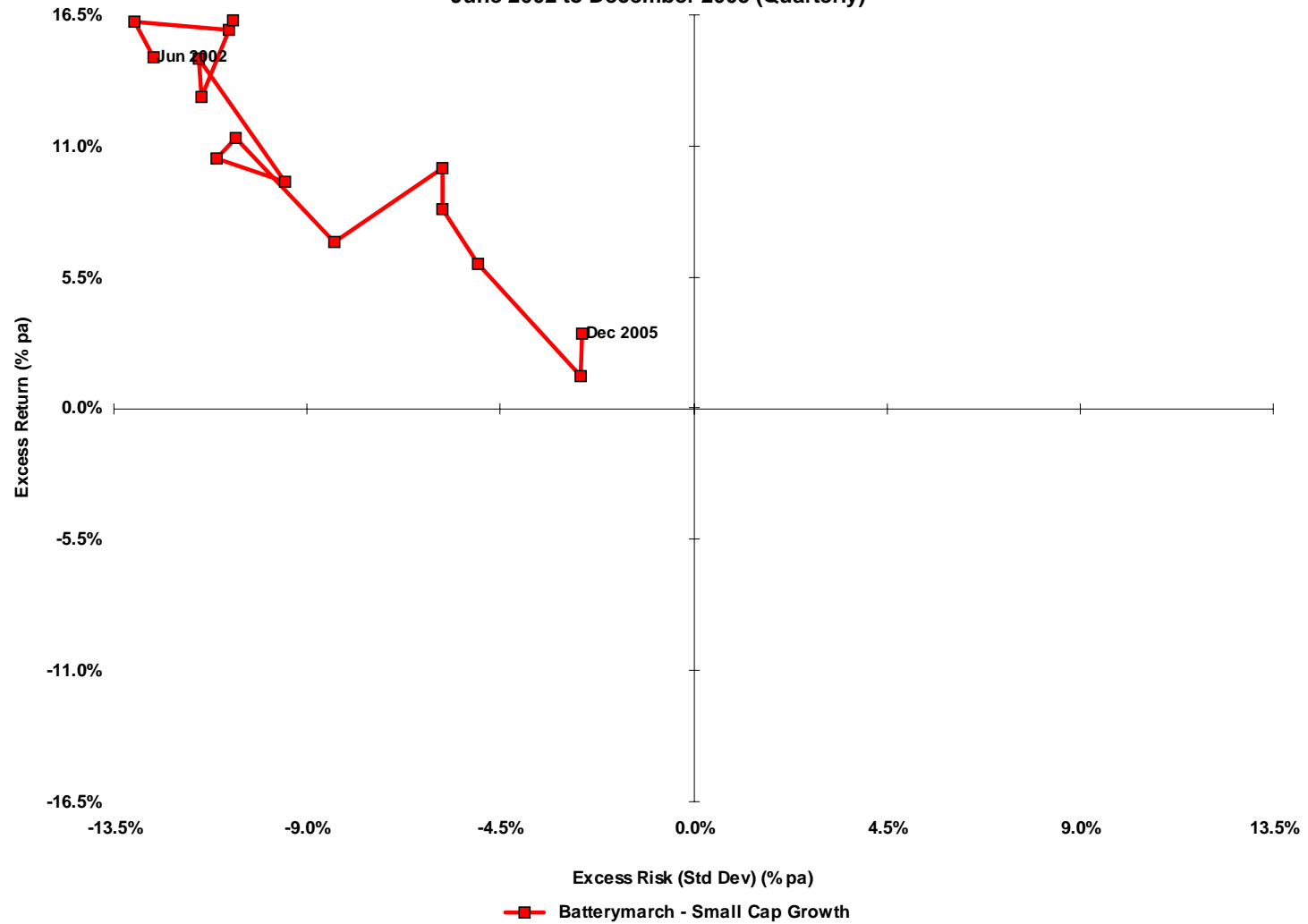
Batterymarch Financial Mgmt

Quarterly Excess Return for Batterymarch versus the Russell 2000 Growth
With Rolling 1 Year overlay - September 2003 to December 2005



Batterymarch - Small Cap Growth

Rolling 3 Year Risk / Return versus the Russell 2000 Growth
June 2002 to December 2005 (Quarterly)

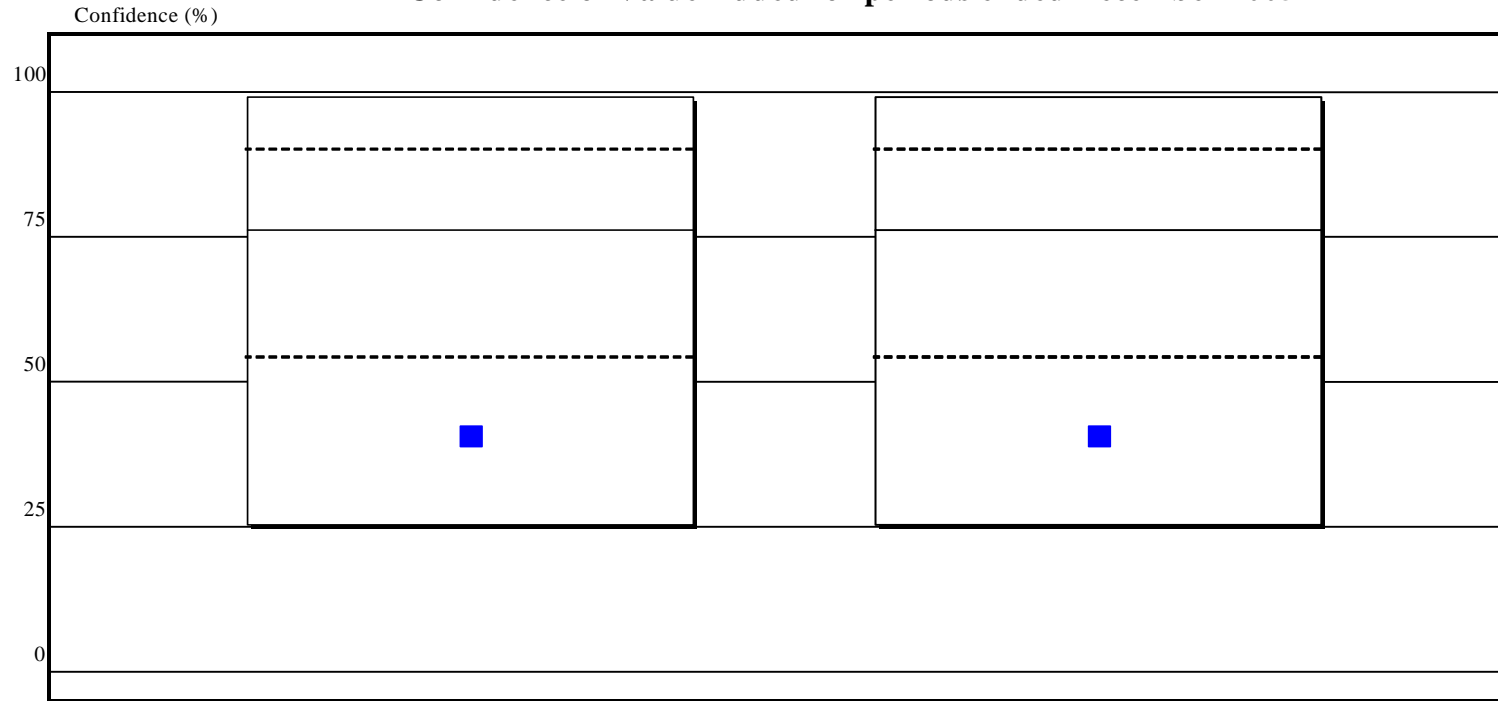


Composite data shown

Batterymarch Financial Mgmt

Comparison with the Mercer US Equity Small Cap Growth Universe

Confidence of Value Added for periods ended December 2005



	1 Year		Inception (12/31/04)	
Batterymarch	40.4	(89)	40.4	(89)
5th Percentile	98.9		98.9	
Upper Quartile	89.7		89.7	
Median	76.1		76.1	
Lower Quartile	54.0		54.0	
95th Percentile	25.0		25.0	
Number of Funds	128		128	

Batterymarch Financial Management

Attribution Analysis

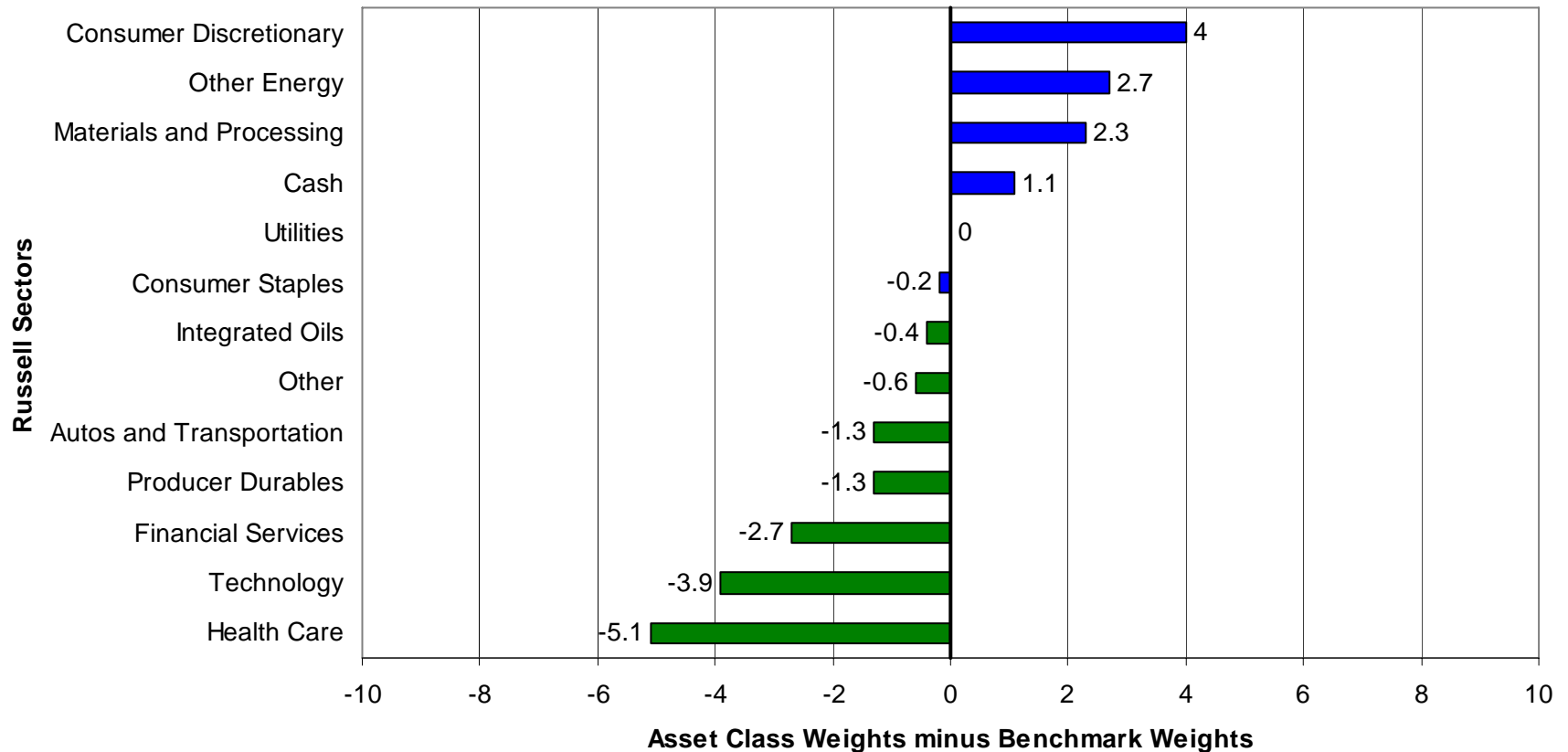
Period Ending December 31, 2005

	Quarter	1 Year	3 Years	5 Years	Inception
Stock Selection	-0.6%	---	---	---	-3.1%
Sector Selection	-0.2%	---	---	---	2.6%
Other	-0.1%	---	---	---	0.0%
Fees	-0.2%	---	---	---	-0.7%
Excess Return	-1.1%	---	---	---	-1.2%

Batterymarch Financial Management

Style Analysis: Economic Sectors

As of December 31, 2005



Batterymarch Financial Management

Organizational Issues

- No organization concerns at this time.

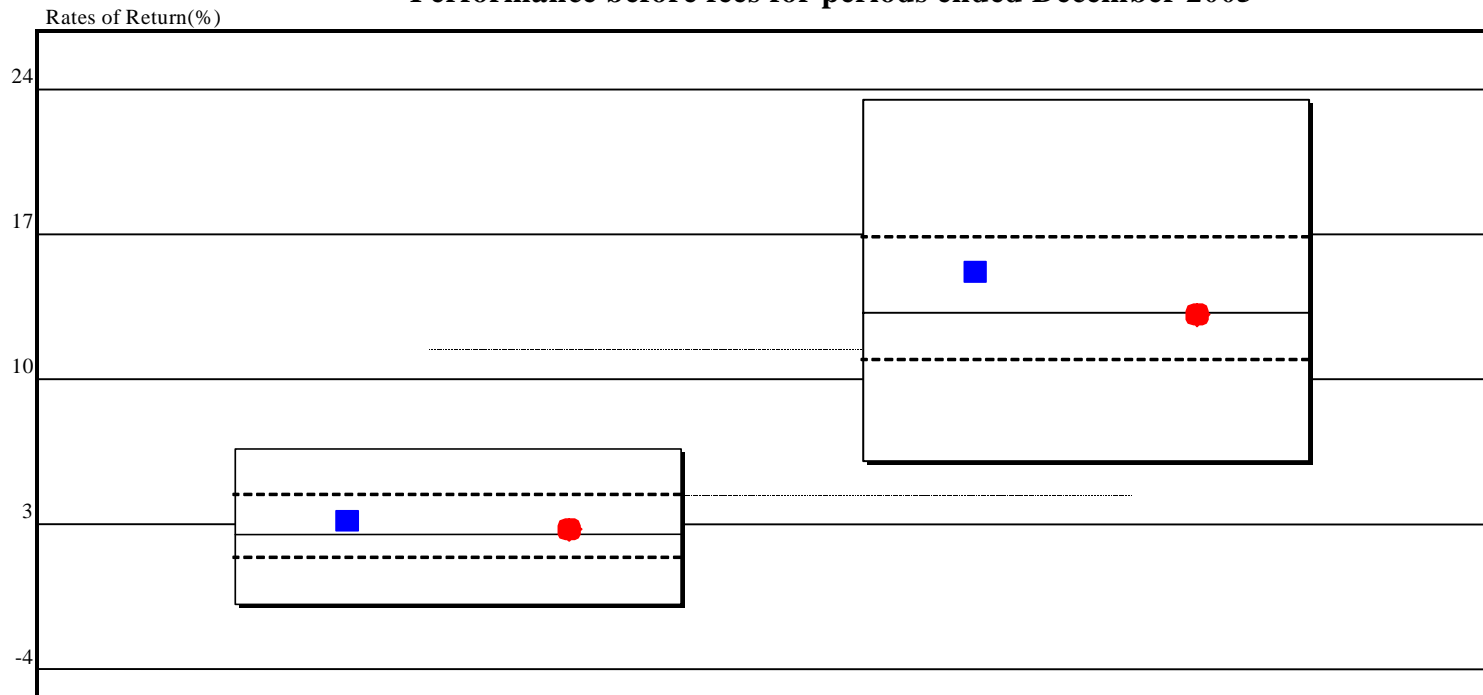
Assessment

- For the recent quarter and 9 months, Batterymarch matched or underperformed the index and placed in the bottom quartile of the universe. Performance history is too short to make a recommendation at this time.
- Mercer rates this product A (above average probability of outperformance).

TimesSquare Capital Management

Comparison with the Mercer US Equity SMID Growth Universe

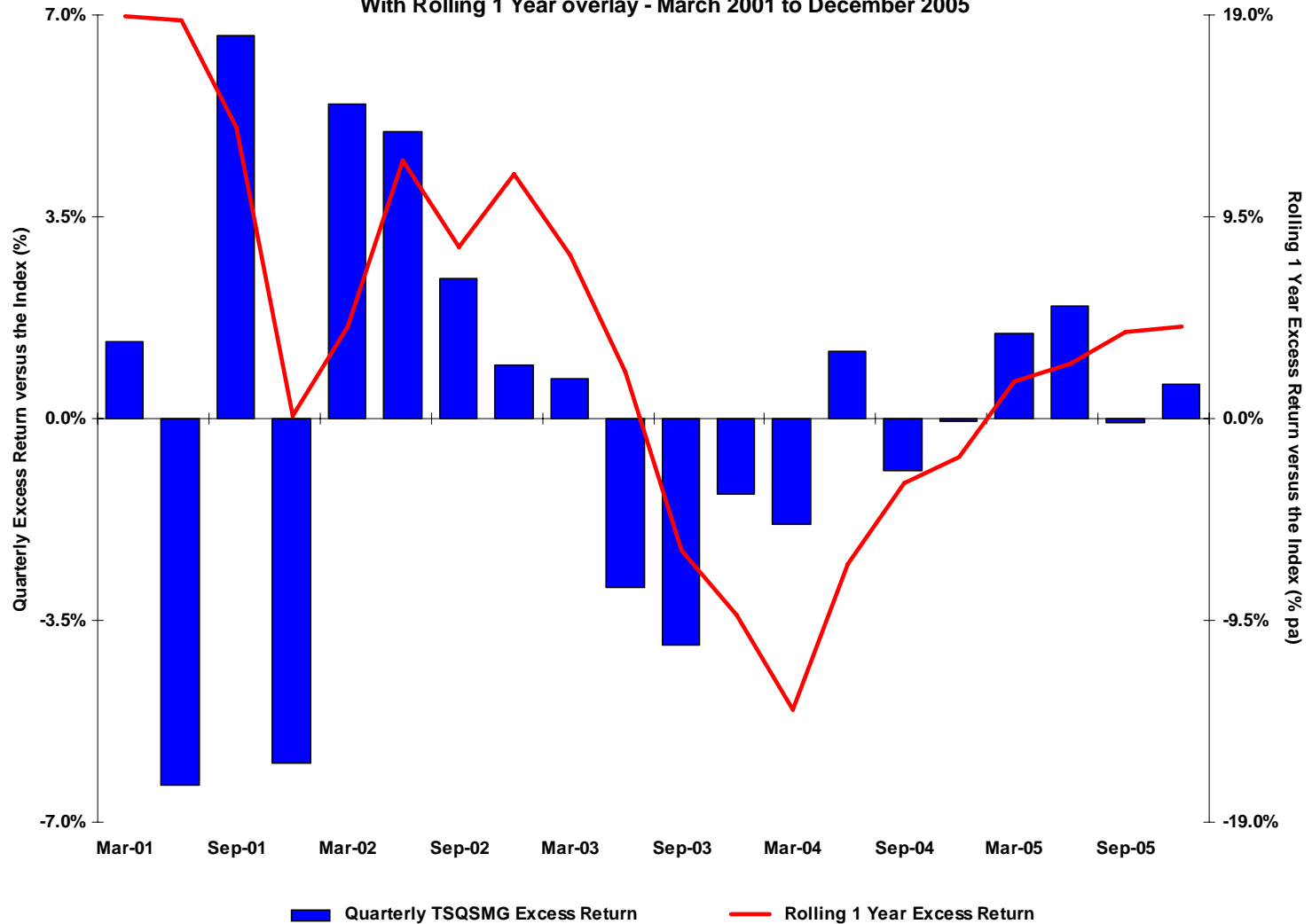
Performance before fees for periods ended December 2005



	1 Quarter (%)	Inception (3/31/05)
TimesSquare	3.1	15.2
Ru 2500 Gro	2.7	13.1
5th Percentile	6.6	23.4
Upper Quartile	4.4	16.8
Median	2.5	13.2
Lower Quartile	1.3	10.9
95th Percentile	-0.9	6.0
Number of Funds	52	49

TimesSquare - Small/Mid Cap

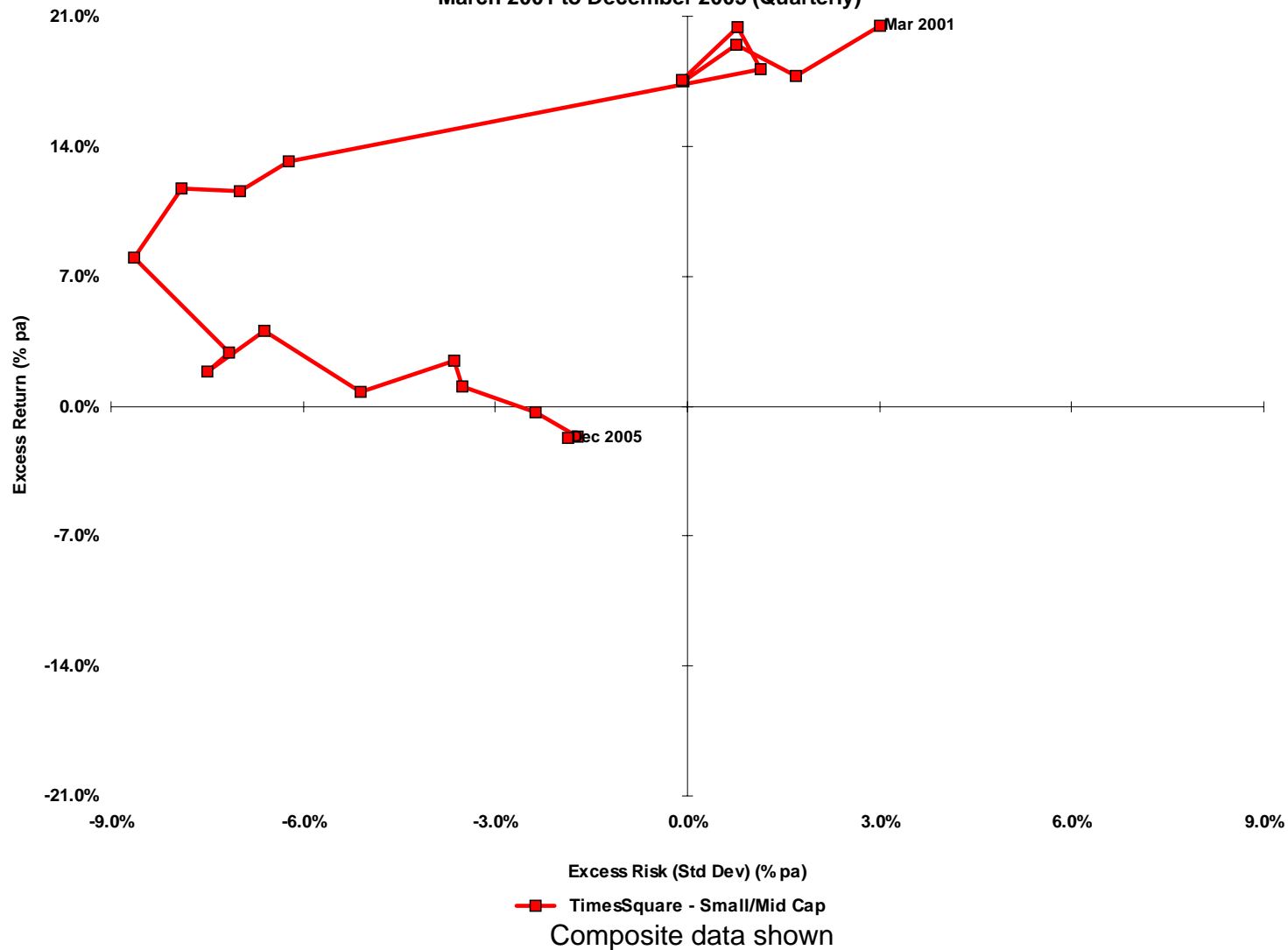
Quarterly Excess Return for TSQSMG versus the Russell 2500 Growth
With Rolling 1 Year overlay - March 2001 to December 2005



Composite data shown

TimesSquare - Small/Mid Cap

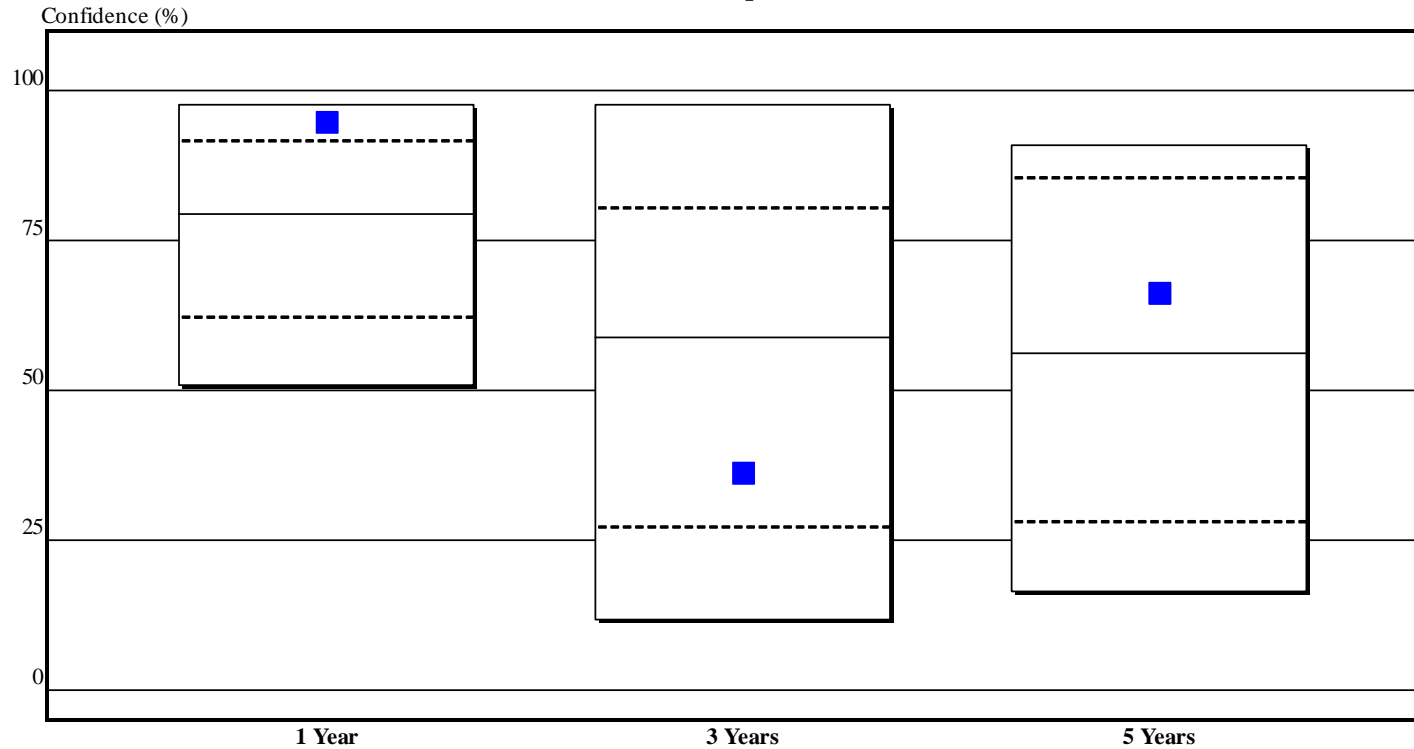
Rolling 3 Year Risk / Return versus the Russell 2500 Growth
March 2001 to December 2005 (Quarterly)



TimesSquare - Small/Mid Cap

Comparison with the Mercer US Equity SMID Growth Universe

Confidence of Value Added for periods ended December 2005



TSQSMG	94.7	(15)	36.2	(70)	66.0	(41)
5th Percentile	97.5		97.6		90.7	
Upper Quartile	91.2		80.2		85.2	
Median	79.3		58.7		55.9	
Lower Quartile	62.0		27.0		27.9	
95th Percentile	50.5		11.7		16.2	
Number of Funds	48		41		33	

Composite data shown

TimesSquare Capital Management

Attribution Analysis

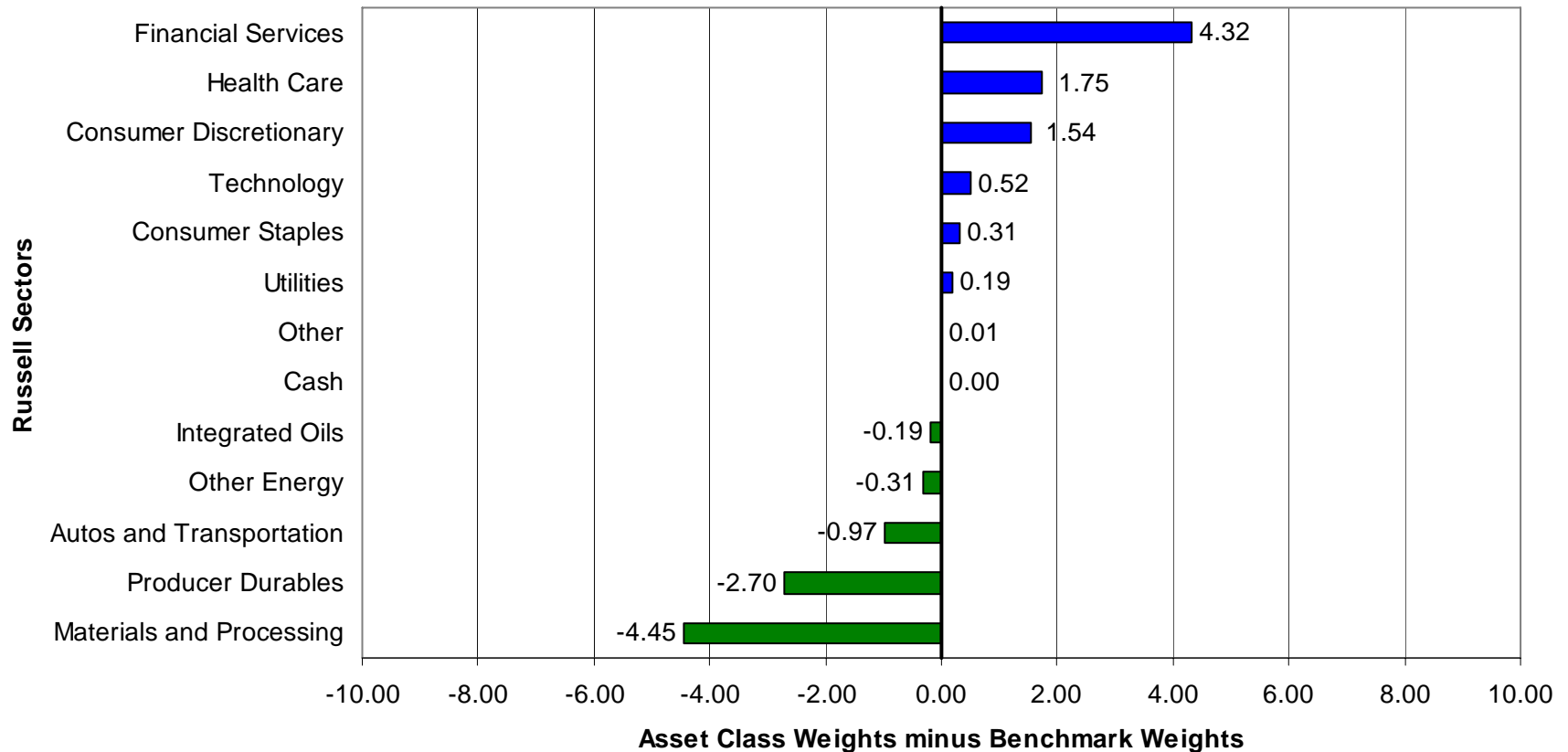
Period Ending December 31, 2005

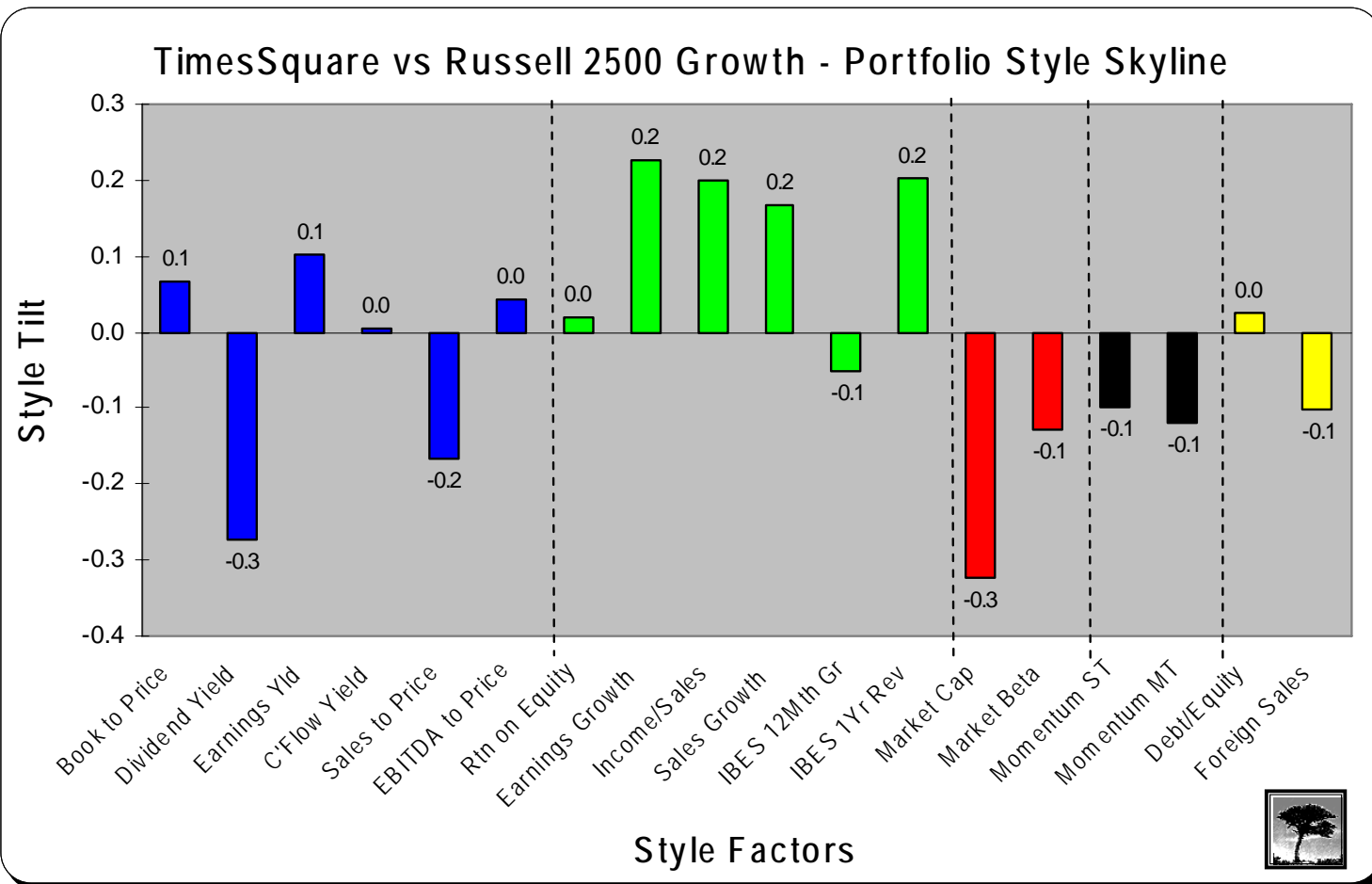
	Quarter	1 Year	3 Years	5 Years	Inception
Stock Selection	0.6%	---	---	---	3.4%
Sector Selection	-0.1%	---	---	---	-1.0%
Other	0.1%	---	---	---	0.2%
Fees	-0.2%	---	---	---	-0.5%
Excess Return	0.4%	---	---	---	2.1%

TimesSquare Capital Management

Style Analysis: Economic Sectors

As of December 31, 2005





TimesSquare Capital Management

Organizational Issues

- No organization concerns at this time.

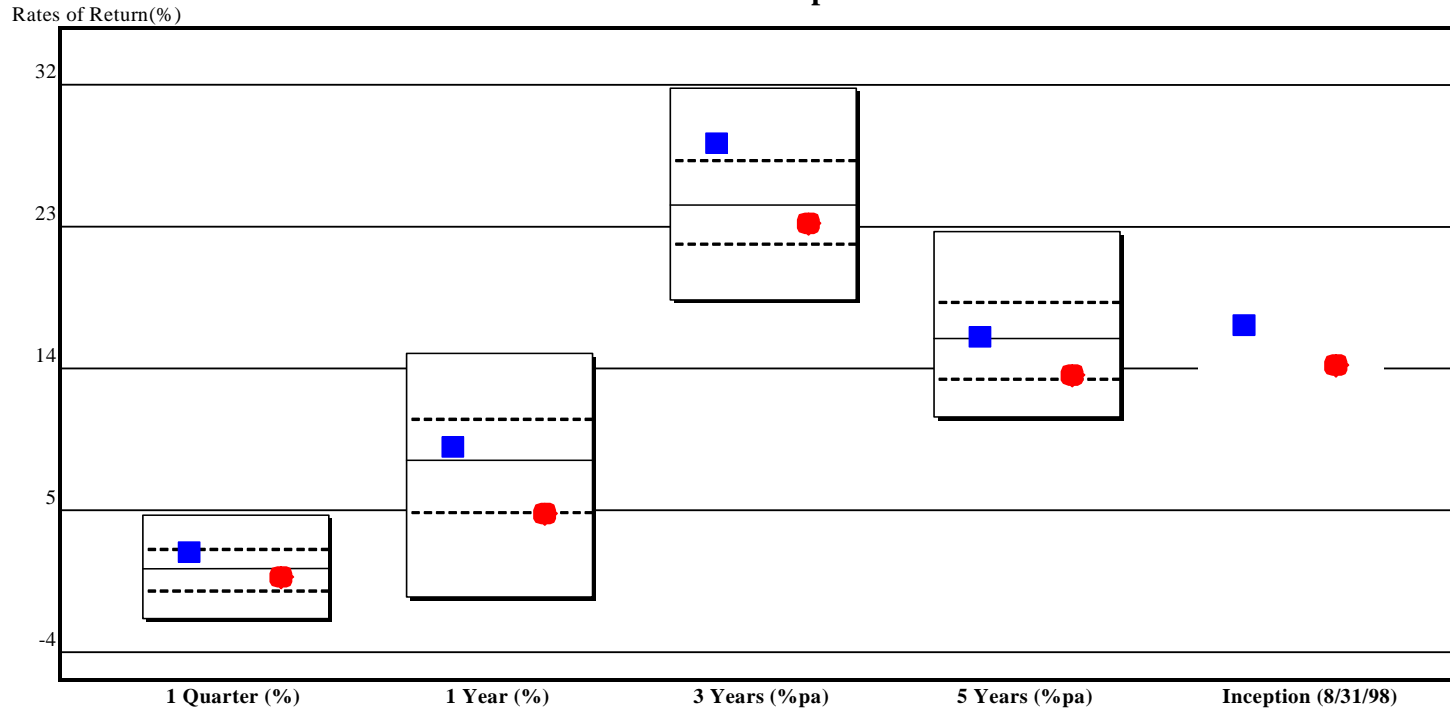
Assessment

- TimesSquare outperformed its benchmarks for all periods evaluated.
- Mercer rates this product A (above average probability of outperformance).

Dimensional Fund Advisors Small Cap

Comparison with the Mercer US Equity Small Cap Value Universe

Performance before fees for periods ended December 2005

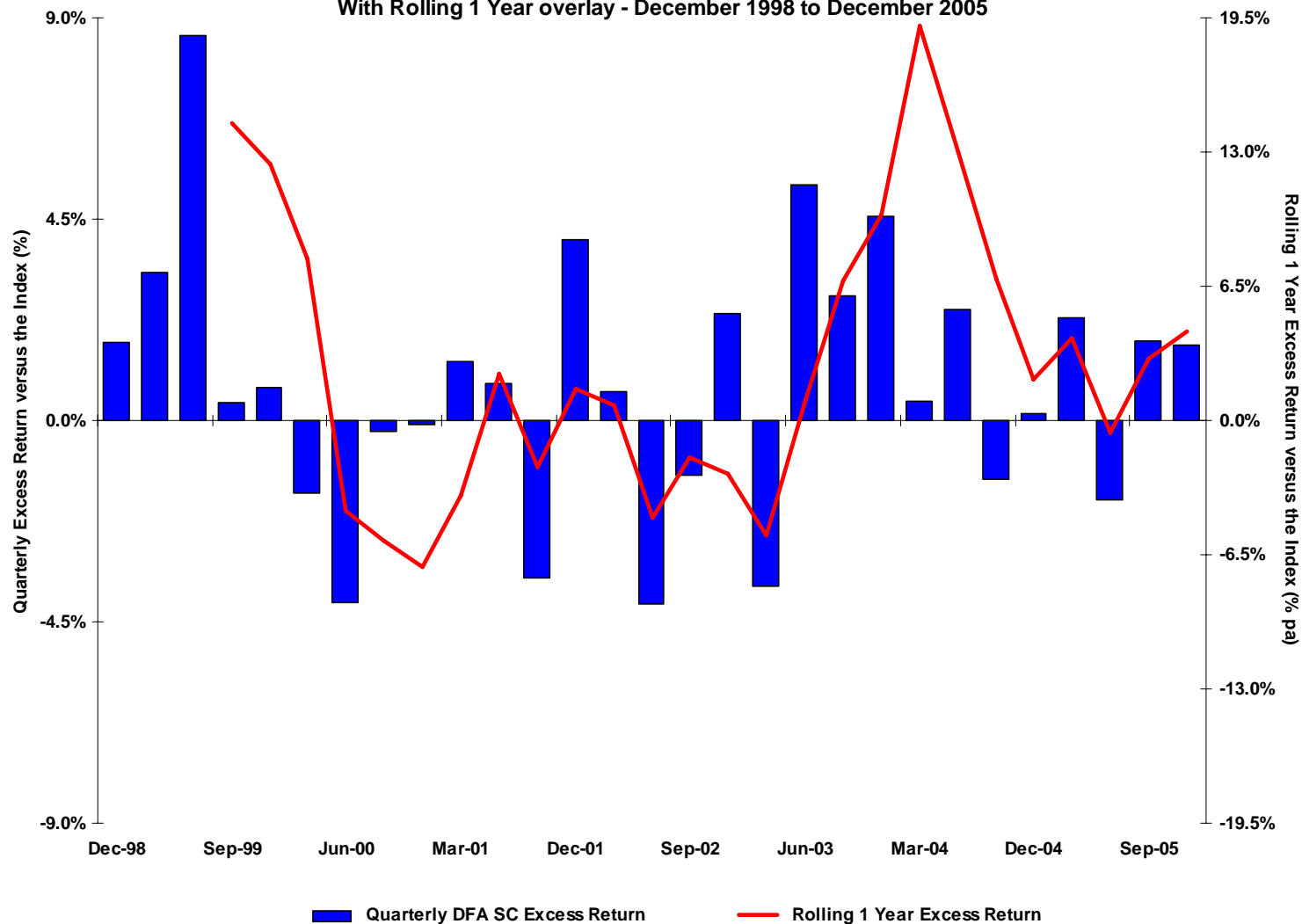


DFA SC ■ 2.4 (25)
RU2VAL ● 0.7

5th Percentile	4.7	14.9	31.7	22.6	
Upper Quartile	2.4	10.6	27.1	18.0	
Median	1.2	8.1	24.4	15.9	
Lower Quartile	-0.2	4.7	21.8	13.3	
95th Percentile	-1.9	-0.6	18.2	10.8	
Number of Funds	144	141	129	114	

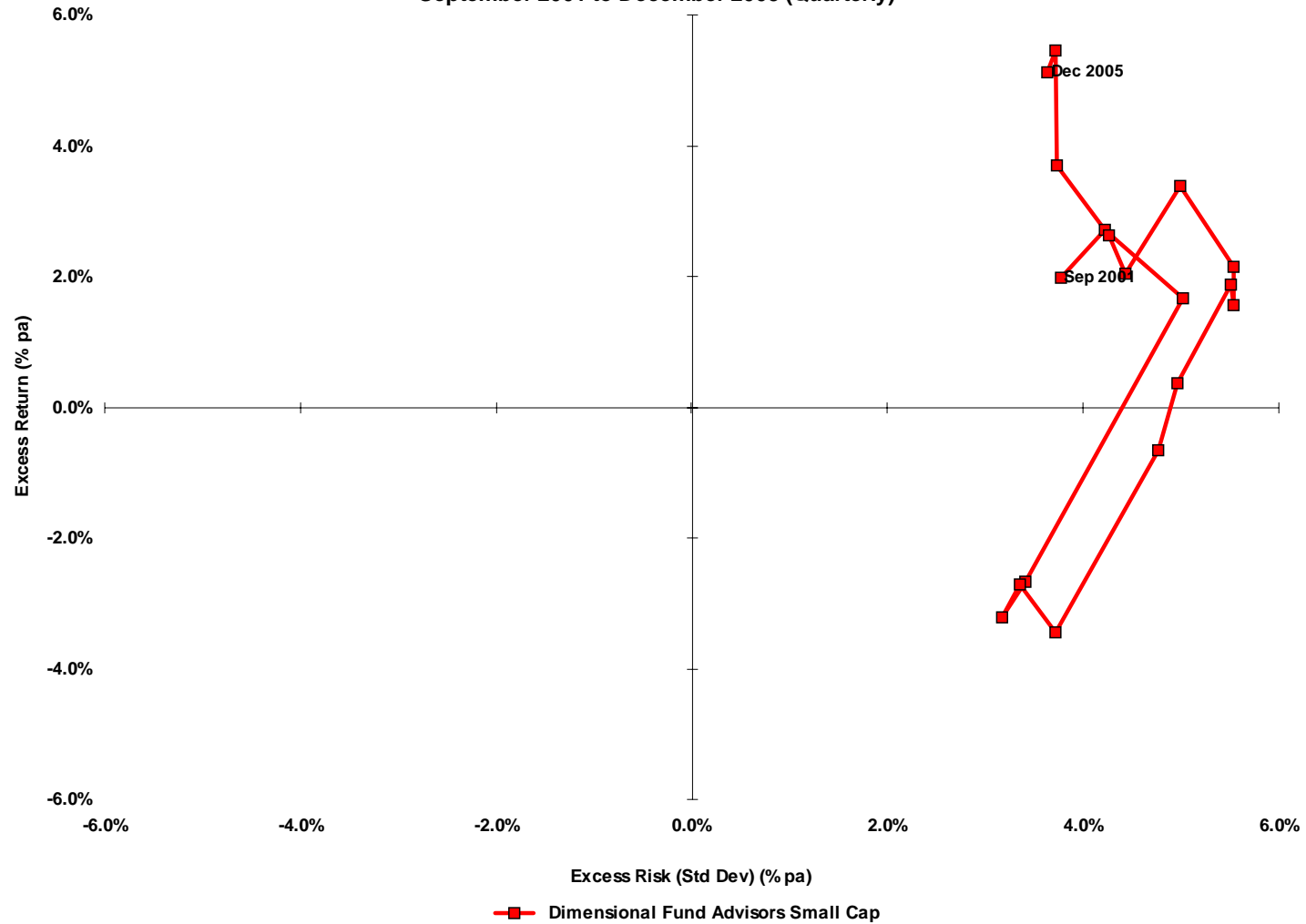
Dimensional Fund Advisors Small Cap

Quarterly Excess Return for DFA SC versus the Russell 2000 Value
With Rolling 1 Year overlay - December 1998 to December 2005



Dimensional Fund Advisors Small Cap

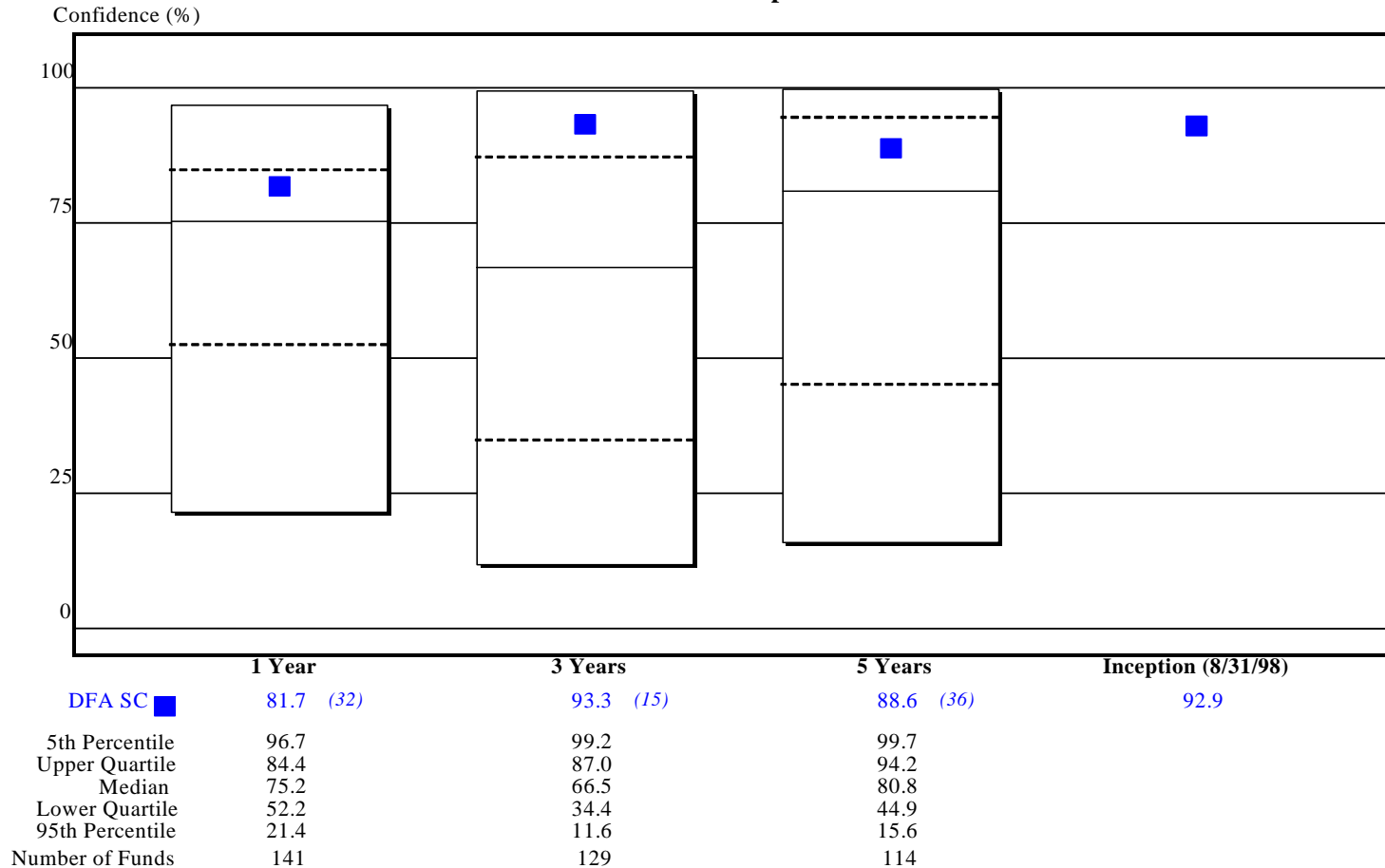
Rolling 3 Year Risk / Return versus the Russell 2000 Value
September 2001 to December 2005 (Quarterly)



Dimensional Fund Advisors Small Cap

Comparison with the Mercer US Equity Small Cap Value Universe

Confidence of Value Added for periods ended December 2005



Dimensional Fund Advisors

Attribution Analysis

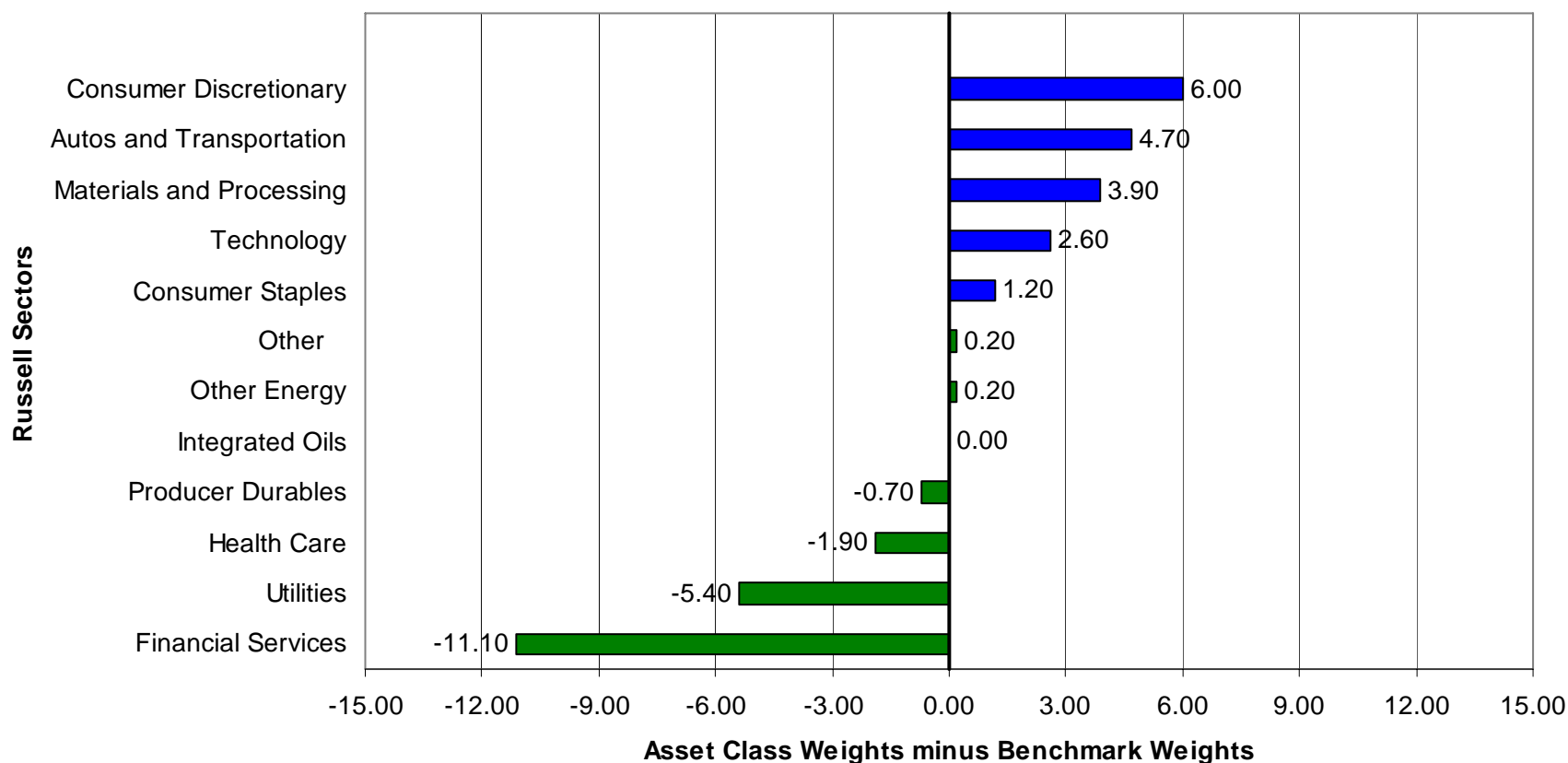
Period Ending December 31, 2005

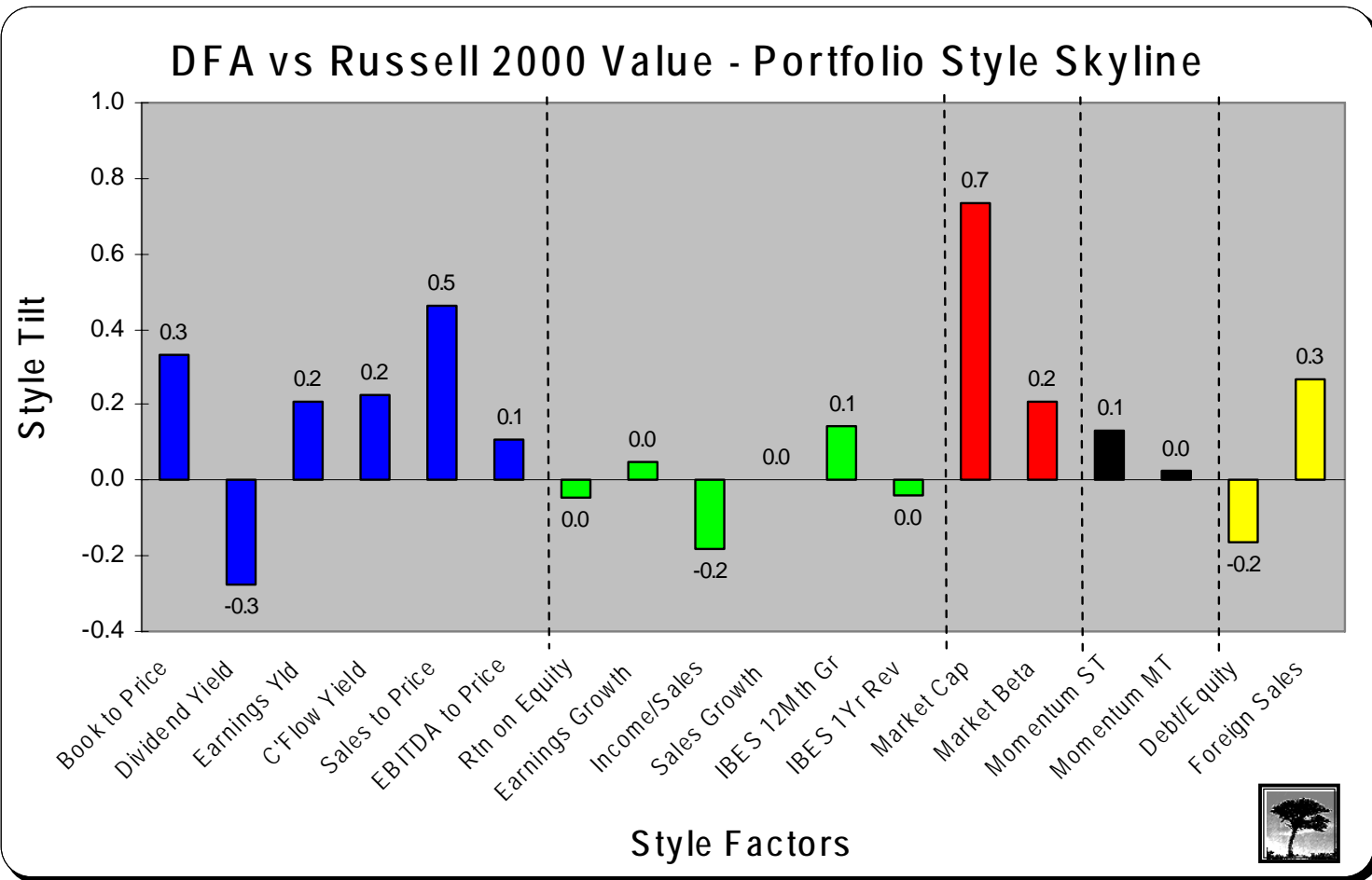
	Quarter	1 Year	3 Years	5 Years	Inception
Stock Selection	1.1%	3.8%	4.0%	3.0%	2.7%
Sector Selection	0.6%	0.9%	1.5%	-0.5%	0.0%
Other	0.1%	-0.2%	-0.2%	0.1%	0.1%
Fees	-0.1%	-0.2%	-0.2%	-0.2%	-0.2%
Excess Return	1.7%	4.3%	5.1%	2.4%	2.6%

Dimensional Fund Advisors

Style Analysis: Economic Sectors

As of December 31, 2005





Dimensional Fund Advisors

Organizational Issues

- On December 31, 2005, Jeanne and Rex Sinquefeld, members of the Investment Committee, retired from Dimensional Fund Advisors. Stephen Clark was named chairman of the Investment Committee. Additionally, DFA is establishing 5 senior portfolio manager roles arranged by market and geography.

Assessment

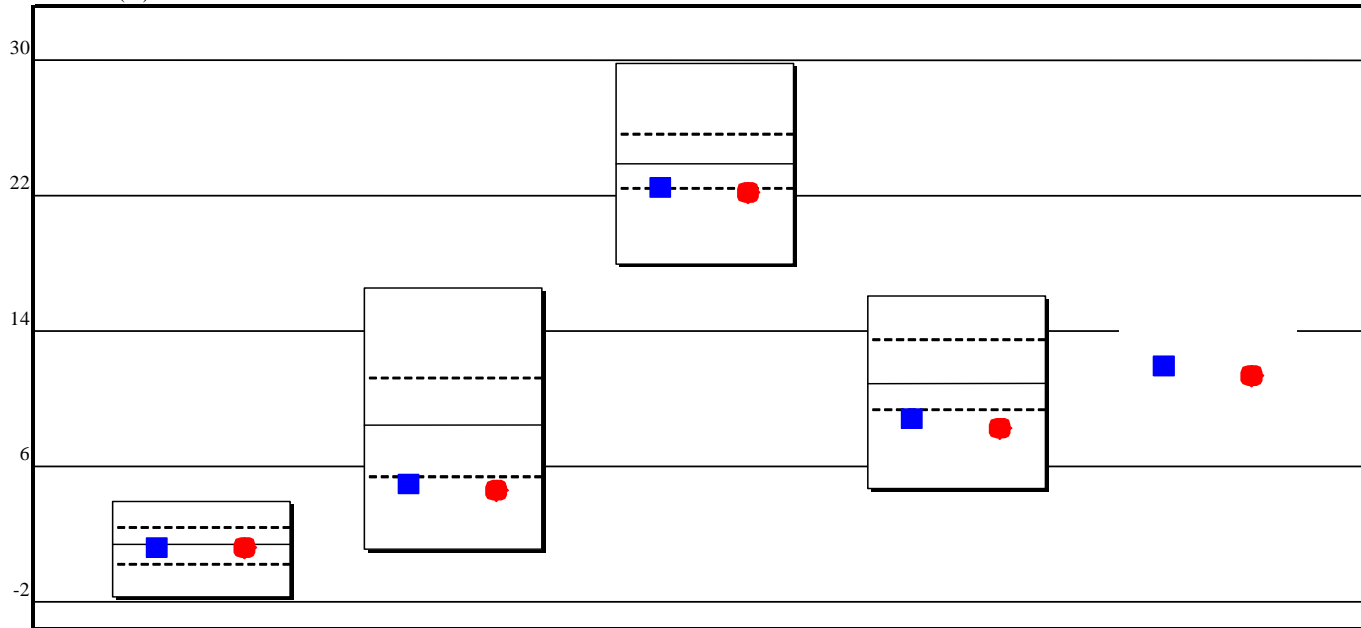
- DFA outperformed its benchmarks for all periods evaluated.
- Mercer rates this product B (average probability of outperformance).

Mellon Capital Small Cap

Comparison with the Mercer US Equity Small Cap Core Universe

Performance before fees for periods ended December 2005

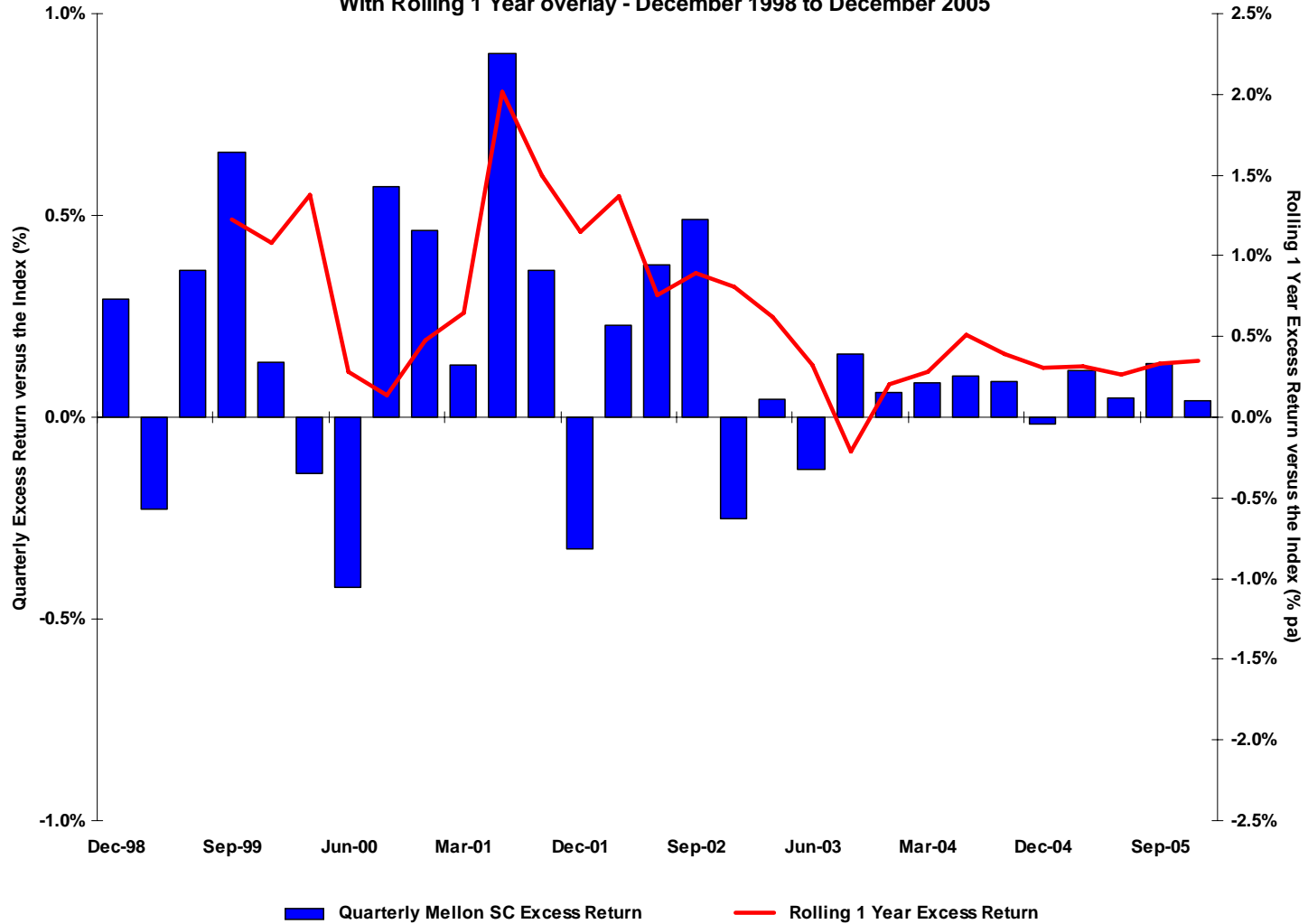
Rates of Return(%)



	1 Quarter (%)	1 Year (%)	3 Years (%pa)	5 Years (%pa)	Inception (8/31/98)
Mellon SC	1.2 (52)	4.9 (79)	22.4 (74)	8.8 (79)	11.9
RU 2000	1.1	4.6	22.1	8.2	11.3
5th Percentile	3.9	16.4	29.8	16.1	
Upper Quartile	2.3	11.2	25.5	13.4	
Median	1.3	8.4	23.9	10.8	
Lower Quartile	0.1	5.3	22.3	9.3	
95th Percentile	-1.7	1.0	17.9	4.6	
Number of Funds	83	83	77	69	

Mellon Capital Small Cap

Quarterly Excess Return for Mellon SC versus the Russell 2000
With Rolling 1 Year overlay - December 1998 to December 2005



Mellon Capital Management Organizational Issues

- No organization concerns at this time.

Assessment

- Mellon is tracking the Russell 2000 Index closely for all periods evaluated.
- Mercer does not rate this product.

Mercer Ratings Scale

A, A- = Above average probability of outperformance

B+, B, B- = Average probability of outperformance

C = Below average probability of outperformance

N = Not rated

What Do the Ratings Mean?

- Mercer's view on prospective future performance relative to benchmark over the medium term (3 to 5 yrs)
- Relative to risk of underperforming benchmark
- May or may not be in keeping with past performance